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What do we have in common?

IN considering the possibility of a career in life insurance, the kind of company you'll want to work for depends in some degree on the kind of person you are, as well as on your particular talents. If you are interested in what we say about the New England Life, and if one of the several basic areas of life insurance work described appeals to you, we suggest that you get in touch with us.

About the company

In 1835 New England Life became the first mutual life insurance company to be chartered in America. It has been a pioneer through the years in the liberalization of benefits to the policyholder and in broadening the uses to which life insurance may be put — the pension trust field being a recent example.

Characteristically the average size policy written by the company is double the industry average. Although the New England does not write industrial or weekly premium insurance, it is the 11th largest life insurance company in terms of assets. Top management is on the young side, the organization is well-knit and forward-looking. We are represented by 87 general agencies and 307 district offices throughout the country and in Hawaii.

Sales work

Selling life insurance has been called the best paid hard work in the world. At the New England, an emphasis on training and selection will help you to develop competence and professional status. If you meet our qualifications, we have a generous income provision for your early years in the business. Once established, you can expect to be among the country's more successful agents. In 1955, 113 of our men made the elite "Million Dollar Round Table", with incomes ranging well up into five figures. One-third of our entire agency force has won membership in our "Leaders Association". A representative sample indicates that the 1955 income of the "Average Leader" was $15,000.

Sales management opportunities

The New England Life has doubled in size in the past 10 years, and at the present rate should redouble within the next decade. This dynamic growth will continue to open up new opportunities in home office and field sales management. In the last year, four new directors of agencies were appointed, four general agencies and more than two dozen district agencies were added. In most cases, a *young* man was promoted to a challenging and lucrative management position.

Group insurance field representation

In this capacity you are a company employee and are compensated on a salary-and-bonus basis. Men coming directly from college receive intensive training at a three months home office course starting in July. They are subsequently assigned — with latitude for choice — to one of our district group offices. The work is largely with important business executives in conjunction with their agent or broker, and there is opportunity for quick advancement in a relatively new and rapidly expanding operation.

Home office administration

If you are a mathematics major, you will certainly want to consider actuarial work. On the other hand, there may be no direct relation between your course of study and, say, work in our underwriting department. Such specialties as investments, law, medicine and accounting are also well represented in our home office staff of 1,200. Here we can only touch upon the opportunity for young men in our Career Orientation program. After a six month period of training and observation in twelve representative departments, you may become an administrative assistant, an assistant to a tax specialist, a business coordinator, or an operations analyst, to mention a few recent assignments.

★ ★ ★ ★ ★ ★

Whatever kind of work you may do for New England Life, you can be sure the New England will do a lot for you; in terms of a liberal retirement program and other benefits to be sure, but, more important, in recognition that the college men we hire next year must soon accept important responsibilities.

For further information write Director of Personnel, New England Mutual Life Insurance Co., 501 Boylston Street, Boston 17.

NEW ENGLAND
Mutual **LIFE** *Insurance Company*
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Yale Daily News—BRITTON HADDEN MEMORIAL BUILDING

INSURANCE WORLD 1957 LIFE, ACCIDENT, AND SICKNESS

Yale Daily News

The editors wish to express their profound appreciation to the many leaders in the insurance industry whose generous support and encouragement have made this volume possible. Special thanks are due Mr. Clarence Axman, President and Editor of the Eastern Underwriter, Mr. Holgar Johnson, President of the Institute of Life Insurance, and Mr. Chester Nash, also of the Institute. Henry G. Von Maur, business manager of the *Yale Daily News*, is deserving of utmost praise for his inestimable aid in the organization of the magazine. The Editors owe a special debt to Miss Ann Chernon, Miss Helen Gorman, and Mr. Francis Donahue, devoted friends of the *News*, who have rendered valuable assistance to them throughout the preparation of the magazine. The editors owe their sincerest gratitude to the firm of Chubb & Son, who generously provided an office for the staff in New York, and also to the National of Hartford Group for the use of space there. Finally, the editors wish to express their appreciation for the work performed on sales of copies, mailing, circulation, and publicity for the publication by Junius R. Clark III, Thomas A. Williams, Peter S. Hockaday, James C. Miller and Edward U. Notz, all Yale undergraduates.

design by Norman Ives

PREFACE

BELIEVING THAT IT IS NECESSARY *to inform the undergraduate of the career opportunities available to him, the editors are proud to present this study of the insurance industry.*

One thought has been central in its preparation. The editors believe that the college audience is a highly sensitive and intelligent group of people who easily separate the factual from the exaggerated. Their idea has been to reveal in some detail the workings of insurance and its vast complex of career opportunities, avoiding the generalities to which the layman is all too often exposed. Thus, if the reader lacks the comforting feeling that what he is reading is familiar, the editors will have succeeded in their purpose.

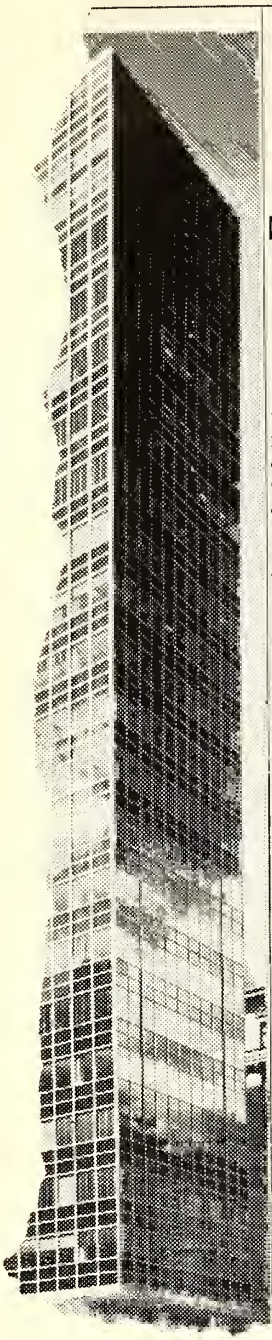
The areas of life, accident, and sickness, and property and liability insurance have been separated because, although related in some of their functions, each represents an industry complete in itself and operating from a different point of view. They are similar, however, in their present need for numbers of well trained college men.

Two ideas have afforded great satisfaction to the editors in the preparation of these volumes. Primary is the knowledge that virtually no student can already have made a choice of a career that will preclude him from reading the publication with vital interest, or from taking up suggestions in the magazine that he enter the field of insurance. Doctors, lawyers, and at least one Indian chief all have a place in the insurance world.

The second idea is that these pages have more to offer than just a mere discussion of what to do after college: they are exceptionally perceptive accounts of a central part of the nation's economy by those people who are best qualified to write on their respective subjects. He who owns an insurance policy, or has the slightest interest in the workings of the American economy should read these volumes with considerable benefit.

The field of insurance has long been surrounded by a cloud of misconceptions. The prospect of a career that entails a life time of door-to-door selling is enough to repel the least ambitious student, and rightly so. It has been the editors' purpose here to present a truer side of this vibrant and expanding industry. A cursory glance at the articles in this publication should be sufficient to dispel any notion of insurance as a mundane industry. Engineering, electronics, law, medicine, finance, nuclear energy, advertising, sales, and management are all bound up in the fabric of insurance, which is truly a cloth woven out of all major lines of endeavor.

It is with understandable pride, therefore, that the editors present this symposium. The authors, representing many of the important insurance companies in this country, as well as government and education, have exposed through their articles the most relevant aspects of an industry that is integrally related to the entire American economic system, and indeed may be called the sine qua non *of that system.*



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Success in your own business . . . with

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H. Gordon Farrar, C.L.U., of Los Angeles, contracted in 1950 and is a graduate of Stanford Univ. Last year he earned his C.L.U.—the professional designation in life insurance. His income is over $10,000 annually.

John O. Todd, C.L.U., of Chicago became associated with the Company in 1931. Since 1935 he has placed more than a million dollars of life insurance for 21 consecutive years. Mr. Todd specializes in Advanced Underwriting and Pension Trusts.

GETTING STARTED IN THIS BUSINESS OF YOUR OWN

Candidates are carefully selected for nationwide selling opportunities. The new agent is associated with an agency office where he receives his initial life insurance education and training under the PERSONAL GUIDANCE of a successful General Agent. The study of text material is supplemented by a schedule of personal conferences with his teacher. The initial study and conference program covers a two week period before the new agent begins his selling activity in the field. As selling experience is acquired through the direction and example of the General Agent, the continuing study program prepares the new agent for the HOME OFFICE CAREER SCHOOL. While at the home office ADVANCED UNDERWRITING concepts are introduced in estate planning and taxes, subjects calling for professional life insurance counsel. The "getting started" period covers about two years.

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Helping you throughout your career is The Northwestern Mutual, the 14th LARGEST CORPORATION IN AMERICA. Its dollar assets exceed 3.4 billions. The Northwestern Mutual leads the industry in performance. Every 10th career agent is a member of the 1956 Million Dollar Round Table. Every 7th career agent has been awarded the Chartered Life Underwriter designation (C.L.U.—the professional designation awarded by the American College of Life Underwriters). Every third Northwestern Mutual career agent has earned the National Quality Award.

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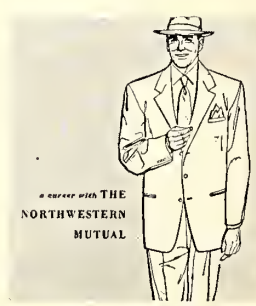
WHAT TO DO



You may have the background for a profitable and satisfying sales career with The Northwestern Mutual. Men now being selected by this company will be guaranteed a substantial income right from the start. WRITE FOR YOUR COPY OF "THE NORTHWESTERN MUTUAL CAREER." Address the Agency Department, 720 East Wisconsin Avenue, Milwaukee, Wisconsin.

Reprinted from CAREER—1957.

FOREWORD

If the design of your career is plainly seen, then the content of this publication is not for you. You will read further only if you are looking for something: a job, or a job's pay, or the satisfaction of a job, or, more than likely, a combination of all three. If the career you seek is found in the life and works of certain men, then perhaps your ambition can encompass some convictions about the insurance business.

Out in a small town in a Western state lives a man who has averaged one life insured for each two elapsed working days for almost 30 years. He is a life insurance salesman and during one year his 10 top sales exceeded $100,000 each.

In the Waldorf Astoria Hotel there gathered recently a group of men who sell Accident and Sickness insurance and whose average annual earnings exceeds that of the Vice President of the United States.

A sale was made not long ago that created over $5,000,000 of life insurance on the lives of members of a single family.

A man graduated from college and moved to a strange town; he wasn't anybody and he didn't know anybody. Today he employs three secretaries and is a recent chairman of the Million Dollar Round Table.

There are little girls with pretty dresses; little boys with fishing poles; widows who own their own houses; prosperous firms that still continue—independent people who stay that way because some other people decided to make a career out of the insurance business.

Some men and women sell insurance; others manage salesmen, invest money, collect money, approve risks, hire people, adjust claims. If your interest is advertising, reflect upon the fact that advertising the product of insurance companies is a multi-million dollar business. Working for insurance companies are lawyers, doctors, salesmen, executives, sales managers, salaried people and commission people, men who train people and build people—each with an expanding opportunity in an expanding economy.

The indispensability of the American method of insuring human life values has put to work over 90 Billion Dollars*—just like the kind you have in your pocket—in business, industry, real estate, the United States Government, and other investment media which create free enterprise in a free economy.*

It is perhaps the impact of this influence which lead President Dwight D. Eisenhower to refer in commendatory fashion to ". . . the fine contributions that insurance and its able salesmen have made over the years to security, thrift, and self-reliance." *And which caused Mr. Harry Truman to say:* "I believe in it and I have quite a lot of it myself." *And which caused Mr. Herbert Hoover to say:* "It is a notable public service."

Conviction, motivation, an abiding belief in the job and the product: these things, nebulous though they be, are the brick and the mortar out of which is built the successful career of any person. As you may some day see, the insurance business offers them all, in great abundance.

HAL L. NUTT, *Purdue University, Lafayette, Indiana*

Province of Pennſylvania, ſſ.

[Printed by Andrew Steuart, in Second-ſtreet

This Indenture Made this Twenty second Day of May in the Year of our LORD, one Thouſand ſeven Hundred and Sixty-one BETWEEN Francis Alison of Philadelphia in the County of Philadelphia Miniſter of the Goſpel, of the one Part, and the CORPORATION for Relief of poor and diſtreſſed Preſbyterian Miniſters, and of the poor and diſtreſſed Widows and Children of Preſbyterian Miniſters, of the other Part: WITNESSETH, That the ſaid Francis Alison for and in Conſideration of the Covenants and Agreements herein-after mentioned, on the Part and Behalf of the ſaid Corporation, to be kept, performed and fulfilled, and of the Benefits and Advantages thereby to ariſe and accrue to the Widow and Children of the ſaid Francis Alison after his Deceaſe; and for divers other good Conſiderations him thereto moving, doth covenant, promiſe, grant, and agree to and with the ſaid Corporation for the Relief of poor and diſtreſſed Preſbyterian Miniſters, and of the poor and diſtreſſed Widows and Children of Preſbyterian Miniſters, by theſe Preſents, in Manner and Form following, That is to ſay, THAT he the ſaid Francis Alison ſhall and will during the Term of his natural Life, yearly, and every Year, pay, or cauſe to be paid on the Twenty second Day of May in each Year, the Annuity or Sum of Six pounds current Money of the Province of PENNSYLVANIA, to the ſaid Corporation and their Succeſſors, or their Order: Whereof the firſt Payment was made on the Twenty second Day of May And further, That on the Marriage of the ſaid Francis Alison and as often as he ſhall marry the ſaid Francis Alison ſhall and will on every ſuch Marriage, pay, or cauſe to be paid unto the ſaid Corporation, and their Succeſſors, the Sum of Six Pounds over and above the ſaid Annuity. And the ſaid Corporation, for themſelves and their Succeſſors, do covenant, promiſe, grant, and agree to and with the ſaid Francis Alison, his Heirs, Executors and Adminiſtrators, by theſe Preſents, That if the ſaid Francis Alison ſhall well and faithfully fulfil and perform his Covenant aforeſaid, by paying, or cauſing to be paid yearly and every Year, at the Day and Times above-mentioned during his natural Life, the ſaid Annuity or Sum of Six to the ſaid Corporation, their Succeſſors, or Order, according to the true Intent and Meaning of theſe Preſents; then, and in ſuch Caſe, but not otherwiſe, the ſaid Corporation and their Succeſſors, ſhall and will yearly and every Year from and after the Deceaſe of the ſaid Francis Alison well and truly pay, or cauſe to be paid to the Widow and Children, or Widow, or Children, (if any) of the ſaid Francis Alison the Annuity or Sum of Twenty one pounds current Money aforeſaid, during the Term, in the Proportions, and in the Manner and Form as is expreſſed and particularly mentioned and ſet forth in a Plan of Agreement between ſaid Corporation, and the annual Contributors, which for this Purpoſe is to theſe Preſents annexed.

In Witneſs whereof, The Corporation for Relief of poor and diſtreſſed Preſbyterian Miniſters, and of the poor and diſtreſſed Widows and Children of Preſbyterian Miniſters, HAVE put their common SEAL TO THESE PRESENTS, the Day and Year firſt above-written.

Wm. Humphreys Treasurer

The first life insurance policy issued by an American company: The Presbyterian Ministers Fund.

PART I MAN'S SEARCH FOR SECURITY

THE BASIS

OF FAMILY SECURITY

BY MARION B. FOLSOM

Secretary of the United States Department of Health, Education, and Welfare. Secretary Folsom graduated with honors from the University of Georgia, and with distinction from Harvard Business School. Before holding his government post he developed an insurance benefit plan for employees of the Eastman Kodak Company, where he worked, and other Rochester concerns.

ONE MUST experience a sense of satisfaction in reviewing the status of private and social insurance in this country. Never before have the American people had so high a degree of financial protection.

Many complimentary things can and should be said about the development of the American life insurance business to its current all-time peak. Overriding all of them, I think, has been the ability of the business to adapt to—and serve the needs of—our social and economic growth and change.

No major country in history has undergone the growth and change which have taken place in America in the past century. In this period we have shifted from an essentially agricultural basis to an industrial basis—with all its economic and social adjustments. We have grown in population from about 23 million people to over 166 million. We have increased our national product from less than $10 billion to over $391 billion. Our working population has grown from less than eight million to about 65 million.

This period of 100 years has also marked the development of modern life insurance. It is true that the oldest life insurance company in the United States, the Presbyterian Ministers' Fund of Philadelphia, was organized in 1717. And incidentally, it was called the "Fund for Pious Uses"—a good name for insurance. But the real basis of our *modern* life insurance was laid only a century ago by several companies which developed effective plans for sound and reasonably rapid growth.

Because of the initiative and energy of the people and our natural resources, we were the last industrial country in the world to feel the need for a national governmental system of insurance. As late as the 1920's I felt with many others that economic protection for individuals and families could be provided through the efforts of employees and workers. The depression of the 1930's, however, with its devastating effects on jobs, savings and the economy generally, made it clear that the federal government must help provide a basic foundation of protection on which individuals and families could build a more secure future.

And so we developed the federal system of old age and survivors insurance, one of our strongest bulwarks today against human distress. At the outset there was quite a little opposition, some of it from members of the insurance industry. Fears were expressed that the social security system would dampen individual initiative, industry and thrift. But the fact is that since social security was started, individuals on the whole have built more economic security for themselves than ever before. They have greatly increased their savings accounts, cash deposits, savings bonds, life insurance, health insurance, home ownership, annuities and investments in stocks and other securities.

Fears also were expressed that political pressures would increase social security benefits all out of line with a sound program. But the fact is that when this administration took office, we found benefits were too low. Protection was extended to an additional ten million persons, so that nine out of ten workers are covered today. If it were not for this system today, many more persons would be forced to turn to public relief to meet their essential human needs.

We look forward to continued improvements in social security with extension of coverage to the few groups who are still excluded and other steps which can be taken wisely at this time. On the other hand we must always be especially careful that proposals for new benefits are equitable and sound; that they are actually in keeping with the changing conditions of our times, including trends in population, employment and life span. And we should remember there is a limit to the social security taxes the people may be willing to pay to support the program in all the years ahead.

Along with the growth and improvement of our social security system, one of the heartening developments has been the expansion of private company pension plans. In 1935, the year the Social Security Act was enacted, there were only about 1,000 private plans in existence with a coverage of only about 2,600,000 employees. Today there are over 18,000 such plans with a coverage of about 13 million employees. About one million retired people now receive benefits under such plans—twice as many as four years ago.

In all this pattern of private and public effort toward economic security, we see the strength of diversity and versatility—first and foremost, the worker's initiative, foresight and thrift; then privately sponsored pension plans; and finally the national system of old-age and survivors insurance protection.

Although our strides have been great in the private pension field, there is a crying need today for a renewed display by the insurance industry of its traditional enterprise and ingenuity. Even with our advances, many millions of workers still lack sufficient protection. We need more and improved private retirement plans, and we need im-

provements in many plans already in effect.

The imagination and energy of the insurance business should also be brought to bear with renewed vigor on still another serious gap in the economic protection of many American people. This is the field of sickness and disability.

MEDICAL RESEARCH: FIRST LINE OF ATTACK

I believe firmly that medical research is the first line of attack. We need more and better research into the causes and cures, prevention and treatment of disease. In recent years we have seen dramatic discoveries which are producing humanitarian and economic rewards today. Much suffering has been relieved or prevented and millions of lives have been spared. We stand now, without doubt, on the threshold of solving more great mysteries of disease. So the possibilities for further advances are great, and the nation should reinforce its research efforts in many ways. Further, we must speed and improve the application of the fruits of research to the daily lives of people throughout the nation.

And we must take a dual approach. While striking at the root causes of illness, we must also help ease the mounting burden of the *costs* of medical care.

I am convinced that voluntary health insurance is a sound and practical means of increasing security against medical costs. The nation has seen a remarkable growth in private health insurance in recent years. But the truth is that we have hardly scratched the surface. There are remarkable opportunities for the future that should bestir us all.

While life insurance was a fledgling one century ago and retirement insurance began to take hold about 30 years ago, health insurance is the newcomer in the trio. Sixteen years ago, only about six million persons had any form of prepayment protection against the costs of medical care. The combined efforts of the insurance industry and organizations like Blue Cross and Blue Shield, especially since the end of World War II, produced a dramatic change in the voluntary health insurance picture. Today almost two out of every three in the entire population are covered with some form of health insurance. In the past 15 years the number of persons with hospitalization insurance has increased from 14 million to 108 million, and the number of persons with insurance to cover surgeons' expenses has increased from approximately seven million to 92 million. Protection for general medical expenses has expanded from five million persons to 56 million in 11 years.

The measure of the problem, however, is what remains to be done. Despite the rapid strides there are still about 60 million Americans with no form of hospitalization insurance. Almost half the people have no surgical insurance protection. And more than two out of three—about 110 million—have no insurance against general medical expenses.

Of the total of more than ten billion dollars in private medical care costs, about one dollar in four is met through insurance benefits. We do not, of course, expect insurance to meet 100 percent of medical care costs—but insurance can and should meet more than one-fourth of the total bill.

The protection of health insurance must be extended to more people. Many older persons, for example, find they cannot obtain any type of health insurance now at a reasonable cost. I think it is a sound insurance principle to add a little to premiums throughout the earlier years and thus provide increased protection for older people, including those who have retired.

Further, the degree of protection provided by the policies should be increased. Too often, especially in severe or prolonged illness, benefits are exhausted long before major costs are met; even among the insured, family savings thus are wiped out and many are forced to turn to public aid.

HOPEFUL BEGINNING IN COMPREHENSIVE SERVICES

A hopeful beginning has been made in coverage of such severe or prolonged illness—often called "catastrophic" illness. More than three million persons receive comprehensive medical and hospital *services* through independent group prepayment plans. In addition the number of persons with major medical expense *insurance* has increased from a few hundred thousand in 1951 to an estimated five million now. But the great bulk of the people still are unprotected against the crushing costs of severe or prolonged illness.

Thus, much more needs to be done. The "deductible" and "co-insurance" principles have already been applied successfully to some health insurance plans in industry. These principles should now be applied widely in the development of many new plans. In this way, I believe, increased protection against the costs of catastrophic illness can be provided at very reasonable premiums.

We should recognize, I think, that the improvement and expansion of health insurance will not in itself be the total answer. We still have the problem of those who cannot afford to buy such insurance. The plans men in the insurance industry and we in government have in mind, we believe, will help lower the cost of health insurance so that many more low-income families will be protected. But all of us need to give more study to the problem of providing security against the costs of medical care for the hard core of families who may not be able to purchase insurance even if the premiums are reduced.

Part of the answer to this problem lies in progressively reducing the number of low income families. A favorable economic climate, in which our production can continue to flourish and increase, will give more and more people the economic ability to purchase voluntary health insurance.

GREAT NEEDS AND GREAT OPPORTUNITIES

And so we face great needs and great opportunities in increasing economic security for the American people. In the American tradition this is a challenge to insurance as a private industry—a challenge to its initiative, its enterprise, its creative spirit. The history of the industry points the way. Experience shows that when attractive policies are developed at the lowest possible prices and when these policies are offered with drive and ingenuity, they are accepted in large volume. This process is in the tradition of Yankee enterprise and know-how. It is good business, it helps people and benefits the nation. As private enterprise meets the need of the people then the people will not find it necessary to resort to broad government action.

With its record of great growth in the past and with great needs still to be met, one thing is certain—private insurance has not achieved the full place destined for it in our society.

With the "magic of the averages" in life insurance the industry worked wonders in advancing human welfare. It should now put this formula to work with even greater vigor and on a wider scale in the field of pension and health insurance.

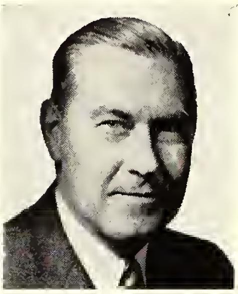
The full meaning and broader purpose of insurance are not defined alone in economic or business terms. The true meaning and purpose of insurance are to protect people against want and to advance human aspirations. No service can be more fundamental to the general welfare of the nation.

* * *

CONTRIBUTIONS TO

FINANCIAL SECURITY

BY HOLGAR J. JOHNSON



President of the Institute of Life Insurance. Mr. Johnson is a graduate of the University of Pittsburgh. Immediately after graduation, he began his career in insurance as an agent. Since coming under his direction, the Institute has come to play an increasingly more important role in the insurance industry, until today it is recognized as its central source of information.

Life insurance has made an important contribution to the security of American families. This may not be completely demonstrated from a mere citation of the "then and now" picture of its century or more of development, for the social-economic structure has changed materially from 100 years ago—from even a decade ago. These great changes have, in some degree, been made possible by the very existence of life insurance. Adjustment to them has been eased to a great degree by this bulwark of life insurance which our families have created.

There are several great changes that have taken place in this country, in large part during the past quarter century. They are somewhat interrelated and they all involve in some way the status of family financial security.

We have seen the break-up of the "family clan." Whereas our fathers in large part lived within easy access to a host of close or not-too-distant relatives, most of our families today are pretty much unto themselves wherever they are. The relatives are no longer around the corner to lend a hand in time of trouble.

Then, too, we have seen grow up an increased dependency among families on the breadwinner's job. Family financial security balances are quickly dislocated if the job pattern is too long disturbed, unless careful planning has provided resources for the emergency.

At the same time there has been a growth in the family "margin for security" in incomes. That is, as incomes and living standards have gone up, the margin beyond sustenance for millions of families has grown, leaving a greater portion to establish family financial security plans.

In consequence of all these trends and because of its time-proven record of performance, life insurance has come to play a vital role in the planning for and actual maintenance of family security. Not only is life insurance used for its original purpose of meeting the needs of dependents at time of death, but it is increasingly being used for the living needs of policyholders themselves. Over half of the annual flow of benefits, now exceeding five billion dollars, is in the category of "living benefits" today.

Many a young man is in college today because of a life insurance policy, many a young businessman of today got his start in his career through a life insurance policy.

The great change that has come about in family security and the great contribution that life insurance has made in accomplishing the change may be seen by contrasting the general situation today with that in 1929, just over a quarter of a century ago. This is obvious to many of us who have lived through business life in both years, but not perhaps to those in college now or just entering business to whom the picture of 1929 is merely a text book recital or conversation by the oldsters.

Let's take a flash-back to 1929.

The young fellows in the class of '29, looking out towards a business career and establishment of a family, faced whatever unemployment might ensue with no protection against loss of income from that cause; they had little or no protection against financial loss from non-occupational sickness or accident; there were relatively few pension or retirement plans in force; the family life insurance averaged only $2,700, with only a small portion of that set up to provide income; it was a year of prosperity, but the security picture was dim in outline.

The class of '57, in contrast, faces any possible unemployment in a large portion of cases with unemployment insurance benefits; the greater part of our families are covered by some form of accident and sickness insurance; nine out of ten workers are under the old age and survivorship benefits of Social Security; almost one-third of the employed civilian work force is covered by some pension plan; life insurance averages nearly $7,000 per family, with millions of families owning sizeable amounts; much of today's life insurance is on a specific income plan for family maintenance, and much of it is for specific purposes such as education of children, paying off mortgages and other debts or establishment of retirement income plans.

Some measure of the effectiveness of this change in the security structure may be seen from the total payments to American families currently for the major disruptions in the continuity of income—death, disability, unemployment and retirement. Such payments are now running in the neighborhood of $25,000,000,000. In 1929, corresponding payments were only $2,872,000,000. That reflects a major and increasing contribution from insurance and the security plans born of the insurance idea.

There is another area in which life insurance has made a vital contribution to family security, though this one is so far removed from family activities that one may not be aware of it. This is the functioning of life insurance dollars as a source of capital funds. Our economy and the stability, integrity and happiness of our families must depend extensively today on the

flow of capital. This is the mechanism by which jobs are created and maintained and productivity increased—these being basic elements in family security and rising standards of living.

In the past quarter century we have seen an important transition in the flow of capital. A generation or two ago, the financing of business and industry, with consequent creation of jobs and productivity, was largely a matter of individual investment. Institutional investments, of which life insurance dollars were and are part, were beginning to attain sizeable proportions—but they were still far from the dominant source of capital funds.

Today, however, institutional savings of all types add up to the great source of financing for industrial plants, commercial properties, farm units, homes, large-scale housing—in short, all the things which make for greater productivity and create new jobs.

Life insurance alone now accounts for more than $90 billions of invested funds. These life insurance dollars, averaging over $900 per policyholder, represent a vast contribution to the economy, affecting almost every area of our enterprise. We find light and power plants, railroads, factories, shops, offices, homes, farms, even large blocks of community projects, all receiving financing aid from life insurance funds. We find turnpikes, gas pipelines, schools, colleges, rental housing, commercial real estate and many other facilities on the list of insurance investments. Only recently we saw life insurance dollars called on for one-fourth of the total financing set up to convert the nation's airlines to the jet age.

As our policyholders continue to make their annual payments for their life insurance, this new capital from their accumulating dollars continues to grow. Last year, over six billion dollars of new capital came from this source, and, adding the funds coming available from previous investments, total funds going into the capital market to help meet the financing needs of the economy came to more than $18 billions.

This is a continuing process and one that will grow in importance, not diminish. It is estimated that some 5,000,000 jobs are maintained by these life insurance investments today and by 1965 the equivalent figure may well be twice today's total.

Increasing family security for an increasing proportion of our people is surely the goal of the nation. And in attaining this goal, life insurance has a key role to play. Because of its wide scope and complexity of operations, life insurance will have in its ranks men and women from many walks of life—engineers, management experts, doctors, investment men, lawyers, actuaries, salesmen, and many others. Whatever the special field, these people will be sharing a great enterprise for enhancing the family security of our people.

Looking ahead just ten years, we can see total life insurance ownership exceeding three-quarters of a *trillion* dollars, if we do no more than grow at the same rate we have in the past decade. That would mean an average of $12,000 of life insurance for all families in the country—some $15,000 per *insured* family. And that naturally would mean many millions of additional families with adequate family financial security. This security bulwark will be set up to keep family income going, establish college funds, pay off mortgages, provide comfortable retirement plans and many, many other benefits.

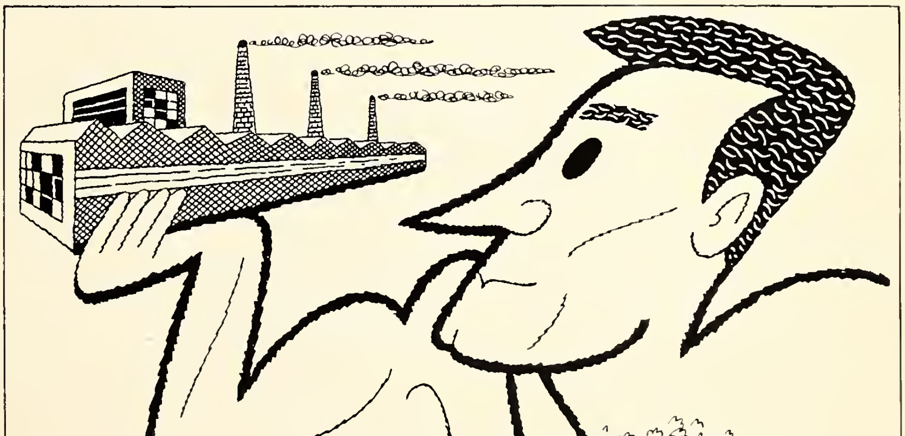
Let's turn for a moment to the 1965 yearbook and see what the class of '65 will be looking to, as it sets out on the life career and establishes the family home.

This typical family of 1965 would be under Social Security, with its old age, survivors and unemployment benefits; it would be covered by some pension plan; it would have hospital expense, surgical expense and medical expense insurance and also disability income insurance; it would have a group life insurance policy at the office or shop; it would have an equity in its own home, with the mortgage insured; its debts would be covered by credit life insurance; it would have a total of $15,000 or more of life insurance, part of this being a family income plan with extra protection until the children are grown.

Such a picture is one of substantial progress in family security even beyond today's gratifying total. It is assurance that there shall be no diminution in our standards of living, but rather still further increases. It is the kind of family security picture that no one would have dreamt of drawing 25 years ago. But it is well on its way to reality today.

The men who enter this business today will be in their prime by the time we attain this 1965 level of security. They will have benefited by the opportunities that such progress assures—and they will be enjoying the satisfactions that such performance in the public interest guarantees.

* * *



The Life Insurance business is a bulwark of American industry. Through the investment of life insurance dollars, industry is provided the necessary capital to continue its unprecedented expansion.

LIFE INSURANCE IN

THE NATIONAL ECONOMY

BY FREDERIC W. ECKER

President of the Metropolitan Life Insurance Company. Mr. Ecker, a graduate of Harvard, began as a clerk in an investment house, and joined Metropolitan in 1925 as assistant treasurer. Through the years he has gained recognition as an authority in the field of life insurance investment, as well as of the broader related aspects of national and international economy. He is also a director of the Chase Manhattan Bank.

Life insurance is one business that grows at a steady pace. One cannot say that it is completely depression proof, but it is true that even in depression people are most loath to give up their life insurance. Consequently, it is not subject to the peaks and valleys that plague so many industries. As a result, those who seek a steady "growth-industry" can well consider casting their lot with one of our hundreds of fine life insurance companies in the United States or Canada.

The first chart, covering more than half a century, illustrates very well how steady is the growth of life insurance protection, and the underlying assets of the life insurance companies, in spite of the ups and downs of people's income.

The life insurance industry's growth lines show also how comparatively slight was the effect of the two World Wars, lesser economic recessions, and even the great depression of the early 1930's. Even that disaster produced little more than a slight retarding of the growth in the amount of life insurance in force. By the mid-1930's, the inforce regained its $100 billion level, first attained in 1929. The people had, by 1948, doubled their coverage with the companies, and trebled it by 1952; now they are well on their way toward their fourth hundred billion of business in force (upper solid curve). The supporting assets (bottom curve) acquired under our level-premium system of insurance grew even more steadily and have now passed $90 billion. In short, the growth curve has been an amazingly steady one.

Now as to the types of insurance in force and the makeup of the assets held by the insurance companies, the left-hand panel of Chart 2 illustrates the insurance structure itself. Ordinary life insurance, which is traditionally the bulwark of the business and is the type sold for premiums payable at annual, semiannual, quarterly or monthly intervals, now has an inforce of $230 billion—or more than twice as much as Chart 1 showed for all life insurance in force a mere decade and a half ago. Industrial life insurance, which is also sold directly to individuals, but payable at weekly or monthly intervals, has been growing at a much slower rate, although it totals some $40 billion in force. Group life, which is sold through employers largely, has long been skyrocketing, and has now practically $120 billion in force—or as much as all three departments combined a mere decade and a half ago.

Both group and individual accident and sickness insurance have also been growing with great rapidity. Measured in premiums written and renewed, as is common in that branch of the business, individual A & S has since World War II expanded more than five-fold, and group nearly eight-fold—for a combined premium close to $2½ billion a year in 1955.

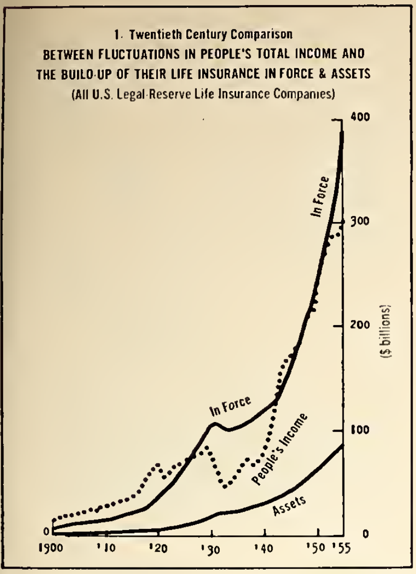
Three convincing economic evidences that the life insurance market is not oversold—much less "saturated"—are provided by these striking facts:

1) Even after all of the build-up to date in people's insurance programs, their inforce is less than $7000 per family. And that is still equivalent to less than the income which they receive in only a year and a quarter—hardly any more than the similarly computed ratio for as far back as 1929. Obviously, people are on the whole *under*-insured!

2) In a similar way, the proportion of their income which people devote to their life and annuity premiums combined runs below its level of the late 1920's and has for the past dozen years remained practically stable at only approximately 3%. That is for gross premiums; after netting out the return flow (dividends, death payments, etc.) by the companies to the people, the ratio is only 1½%—which is similarly below the 1920's; it has veered but little from that figure for many years.

3) A third economic comparison, pointing out how *under*-sold personal insurances really are, is evidenced by a few comparisons of people's spending habits. On alcoholic beverages alone, they nowadays spend some $9 billion a year, which equals the annual premium on all their life insurances; while the $5 billion and more which they consume every year in cigarettes, cigars and other tobacco products exceeds by more than a billion what they devote to all their accident and sickness premiums, not only in life but also in casualty companies, Blue Cross, etc. The $1.8 billion a year which they pay to attend movies and other amusements runs a half billion ahead of their annuity premiums paid to commercial companies. What they lay out on beauty and barber shops, toilet articles, etc., on television and radio sets and on the buying and operation of passenger autos runs similarly to such vast sums as to make even the present volume of outlay on insurance products seem far too small in comparison.

And all that is true in spite of the fact that the aggregate premiums paid to private institutions for all personal insurances add up to $20 billion a year, or, including people's payments toward government protections, $31 bil-



lion. How these two latter sums have grown from 1929 to date is shown on Chart 3. The $20 billion of total premiums paid to private institutions represents a five-fold gain since the days just before the great depression and since World War II a 2½-fold gain.

Although protection is the primary function of life insurance companies, the accumulation of savings resulting from premium collections also represents a highly significant part of the companies' role in our economy. Taken one at a time, the small savings of individual policyholders would have little economic importance. However, through life company operations, those small individual savings can be pooled together to make a sizable contribution to the national economy.

As our economy grows, capital accumulated in life insurance companies plays a more and more important role not only in maintaining a high standard of living, but also in creating new and better jobs for an increasing population. Mass production, which has been one of the most important factors in providing the people of the U.S. with more and better goods *per capita* than in any other country at any time, requires steadily increasing amounts of capital investment. To illustrate that, investment per worker in manufacturing enterprises has grown to well over $10,000, from only $2,000 at the turn of the century. As I emphasized to our policyholders in a recent annual report, "These figures underscore the importance of saving to provide the necessary additions to capital. Life insurance is one of the most important vehicles through which such savings are accumulated."

Naturally, there are many other avenues through which people can save. In competition with the more than 1,000 life companies in the US, there are some 530 mutual savings banks, about 6,000 savings and loan associations, and some 14,000 commercial banks. Moreover, there are also numerous mutual funds, private pension funds, US Savings Bonds, Postal Savings, and compulsory old age and survivors insurance.

However, in the face of such stiff competition, the distinguishing feature of life companies is the steadiness in growth over the years. Note the bottom area on Chart 4. Since 1929, the growth of savings (reserves) in life insurance companies has been far steadier than in any other popular channel, and now runs at about five billion dollars a year, adding up to some $75 billion—or somewhat more if certain contingent accounts similar to reserves be added in; all assets amount to about $90 billion.

How the savings, or assets, of policyholders are invested is shown, for major classes, in the right-hand panel of Chart 2 (referred to earlier). Most striking is the sharp growth of corporate bonds and notes and mortgages, since World War II. Naturally, in both cases, those post-war expansions are much faster than ever before, since they were stimulated not only by the normal demand for private capital but also by the backlogs built up during the war. So their speed of growth since the war may exceed somewhat the long-term trend.

Capital investments in bonds and notes of corporations, which include industrials, utilities and rails, have expanded to $36 billion, contrasted with barely $10 billion after the War. During that period the proportion of assets represented by this classification jumped from 22½% to 40%.

Capital investments in mortgages, which are mainly on city properties but to some extent also on farms, have grown to over $29 billion, from only $6½ billion after the war; the proportion of assets in those jumped to 33%, from less than 15% during that period.

In addition to those most important types of life companies' assets, substantial investments have been made in municipal securities, commercial real estate, and housing. Although stocks have been growing moderately, they still represent only a small share of all assets—i.e., 4% for all stocks, of which only 1½% is commons. Ownership of US government securities declined for life insurance companies after World War II, as they had following all earlier major Wars.

The contribution of life companies' mortgage and corporate bond investments to the private economy is compared with other investor groups in Chart 5.

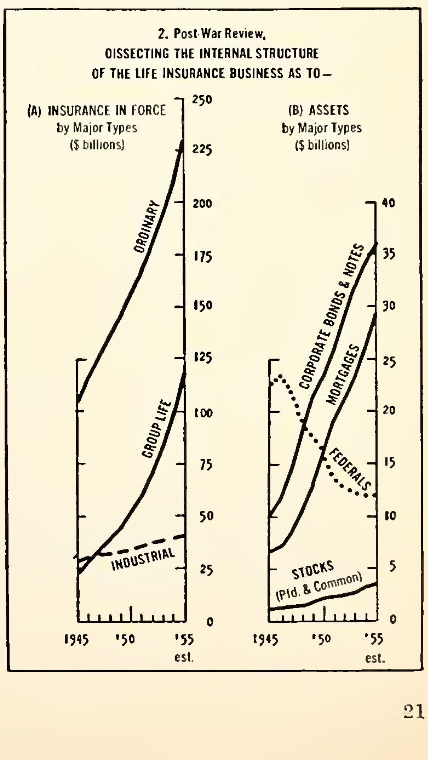
Life companies have loaned to individuals and corporations a little over one-fifth of the $130 billion of city and farm mortgage debt outstanding in the US. They rank second to savings and loan associations, for loans on city properties. On farms, life companies rank first by a wide margin over any other investor group.

Long-term corporate bond and note investments of life insurance companies represent well over two-fifths of some $80 billion of that type of debt outstanding in the US. Consequently, they far exceed any other investor group.

The large contribution of life companies to our economy through mortgages and corporate bonds and notes is explained by the fact that those outlets are especially suited for policyholders' funds—which not only must of course, seek out the highest yield commensurate with safety, but also are best employed in the public interest. The life insurance policy is a long-term contract; consequently it is natural and appropriate that the funds accumulated under the contract should be invested in long-term obligations, such as corporate bonds and mortgages.

Although the companies hold a relatively large proportion of private long-term debt capital outstanding in the nation, their proportion of the entire capital structure, including all private and public debt and equity capital, is relatively small. That proportion, even for the combined companies is hardly 5%, and for the largest life company it is a mere 1%.

Those ratios are small because life companies provide practically no short-term credit, since that is a func-



tion mainly of commercial banks. Moreover, life companies provide very little equity capital. Since World War II, nearly two-thirds of all funds used by corporations have been obtained internally through retained earnings and allowances for depletion, depreciation and amortization. Consequently all types of outside investors are excluded from that type of financing. The small amount of life company investments that is of the equity type, and therefore means ownership which carries the right to vote and the right to have a voice in management, boils down for the combined companies to less than one-fifth of 1% of the total capital structure in the nation; for any one company the proportion is a mere 1/25th of 1%.

Throughout their insuring and investing operations alike, the companies have long made it a practice to maintain all reasonable flexibility in the types of service rendered to the economy.

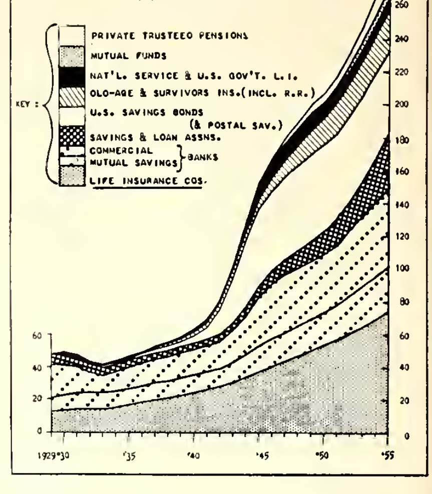
Flexibility in meeting and even anticipating different kinds of consumer demands has manifested itself in diverse insurance products such as the following: group insurance (in its many subtypes—including its various disability forms); credit life insurance on consumer loans; individual sickness, hospitalization, and other disability insurances; family income insurance; premiums payable monthly in both ordinary and industrial insurance; premiums payable by salary allotment; home- or farm-mortgage redemption policies; education policies; business or key-man insurance; non-medical insurance; preferred risk insurance; substandard or extra risk insurance; and others.

Investments also have followed the changing needs. As the country passed from the horse and buggy days to the railroad-building era, the nation's transport needs were reflected in an augmented flow of capital funds to the railroads, first steam and later electric and diesel. More recently, we have witnessed the rapid spread of toll roads—a reversion to old times in a modified form but on an enlarged scale. Recently, other modes of transporting goods or people have come to be heavily financed by life insurance companies—which not only own and lease out railroad rolling stock and automobile fleets, but also lend to finance tanker ships, the new large jet planes, etc. As indicative of flexibility in meeting the changing needs of the times, one might cite financing of vast undeveloped mineral deposits in both the US and in Canada; large scale housing; natural gas pipe lines; and power projects for atomic energy development.

Another example illustrating the flexibility of life company investment policy, is the speed and extent to which such companies have supplied investment funds for the defense of the nation during every major war in its history, and yet, after each one, they again resumed their peacetime role of helping to finance the productive private economy.

4 GROWTH IN VOLUME OF SAVINGS ACCUMULATIONS VIA LIFE COMPANIES AND OTHER SELECTED CHANNELS

(BILLIONS OF DOLLARS)

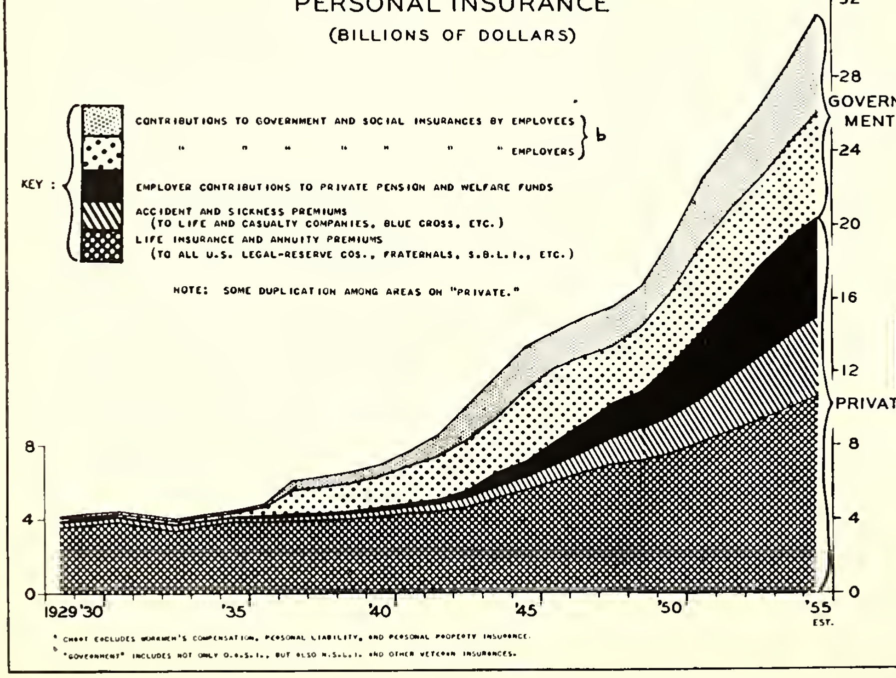


In supplying the American people and the general economy with both the insurance and the investment services which are rendered, the life insurance business is a highly competitive one. Among the more than a thousand legal reserve life insurance companies in this country and Canada, many of the small- and medium-sized ones are growing very rapidly. In fact, they are doing so well that, in the aggregate, the small and medium companies together are enjoying an ever increasing share of the combined life insurance business in force. Many confine their activities largely to local or regional markets; but they are nevertheless fine, vigorous companies with progressive managements, and offer employment on pleasant terms in many parts of the country. Nowadays every state in the union has at least one home office of a company chartered there. So the market for those who work in the insurance business is not limited to just a few rather large companies whose names appear in magazine advertisements, but is a really broadscale one geographically. Even if a man secures employment with a company chartered in one State, its employment opportunities are, in the larger and most of the medium companies, scattered over a considerable area—or even the entire United States and Canada.

As to the future growth of our business, we are optimistic regarding the life insurance department, and even more so regarding accident and sickness insurance. To put that forward view into quantitative terms ten years ahead, or (even more helpfully to career-seekers) 20 years, is no easy problem; and of course the longer ahead one tries to peer, the more numerous and weighty the "ifs" necessarily become. Without taking the

3. TRENDS IN AMOUNTS SET ASIDE EACH YEAR FOR PERSONAL INSURANCE[a]

(BILLIONS OF DOLLARS)



space to spell those out here, many of us agree with Holgar Johnson's conclusion in the first article, that total life insurance in force may expand by 1965 to three-fourths of a trillion dollars, from somewhat under the present $400 billion (shown on Chart 1). Moreover, some of us feel that one trillion might be passed by 1970, and perhaps $1¼ trillion by 1975.

True, these figures become so large that it is difficult for the mind's eye to see their full importance. However, their size, as well as their direction, serve as important possible signposts to indicate the potentials latent in the life insurance business. And, as previously stated, the accident and sickness department's future should find their market growing even faster, relatively, in the next 10 and 20 years.

As a direct supplier of employment to the economy, our business admittedly does not cut a large figure. After all, no industry's function is to create employment, in itself; that is just a by-product of carrying out its prime function—which, in any free exchange economy, is that of producing for our fellow men the kinds and amounts of our products or services which they demand.

Life insurance personnel has expanded by more than 50% since the boom-year 1929, and stands 80% higher than at the subsequent low-point which, in our case (unlike employment generally) was not the great depression but World War II. That decline resulted, of course, from employees serving in the Armed Forces rather than a shrinkage in the life insurance business itself.

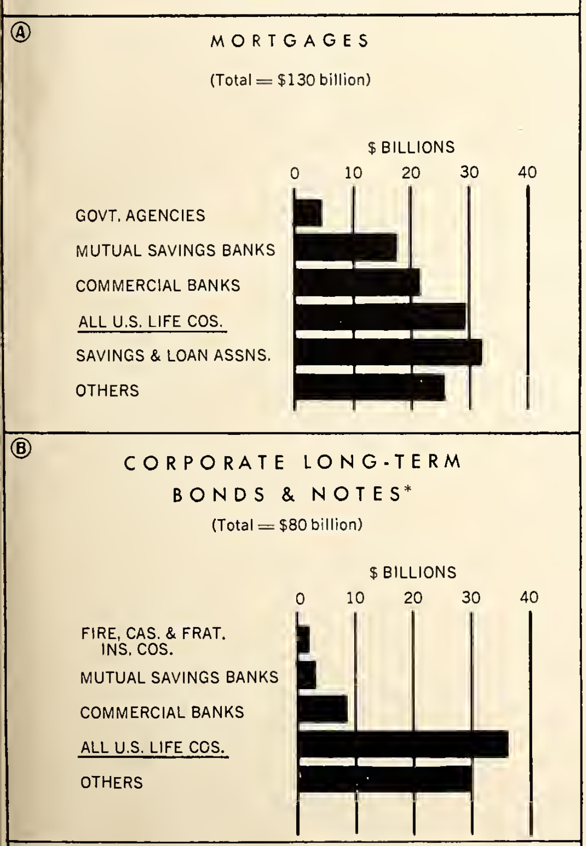
How the 400,000 in the life insurance business are divided among the broad types of employment is summarized in Exhibit 6. That will help give some general idea as to the various occupational opportunities in this business. Among the 270,000 men engaged in our line of work, many of whom are college- or university-trained, around 185,000 are agents. And they are supervised by nearly 40,000 managers and assistant managers—indicating the splendid opportunities which exist for promotion. For home office staffs, which comprise nearly 128,000 people, fully 44,000 are men. Even among the 42,000 clerical personnel staffing branch offices, men number around 5,000.

In closing: perhaps no line of business can give its workers so many satisfactions, from the point of view of public service, as life insurance. The people working in this business not only serve to ameliorate distress in the event of death and illness, but they also help channel a great pool of savings, fed by many small rivulets of repetitive insurance premiums, toward building up the nation's economic machine and raising its standard of living through the investment function. Thus, the services which insurance people perform for the American public are far larger and more important than is indicated by their number alone.

The life insurance business affords great opportunities to college-trained men as salesmen, administrators, or in any of the many fields requiring technical proficiency such as the actuarial sciences, finance, law or economics. It is a career in which to be successful requires hard work but along with that goes great satisfaction and plenty of opportunity for advancement.

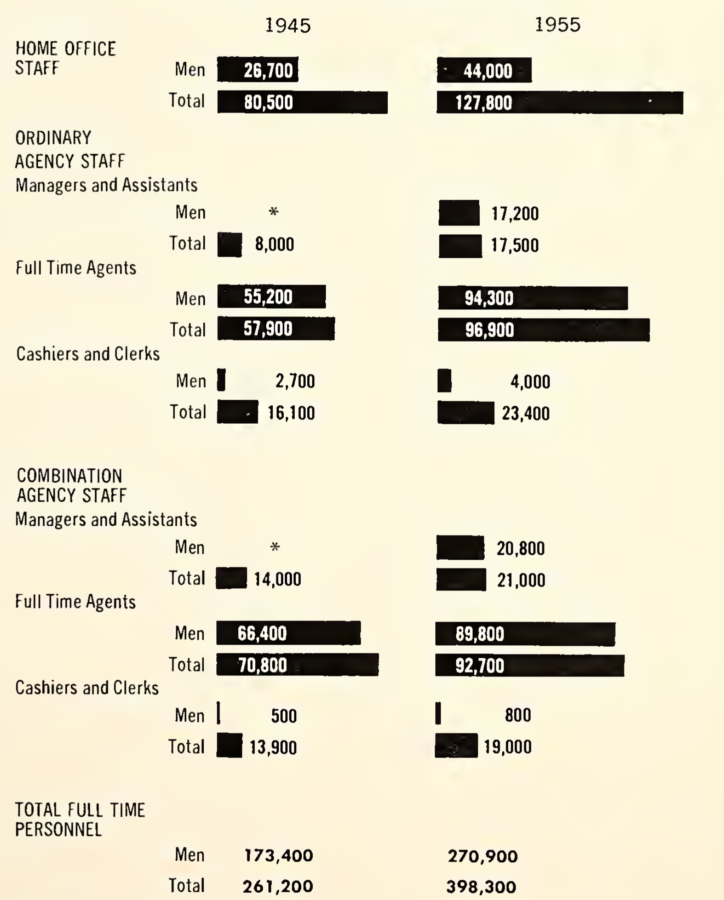
5. COMPARATIVE SHARES OF VARIOUS LENDER GROUPS IN LEADING TYPES OF INVESTMENTS

DECEMBER 31, 1955 (Est.)



*Maturity of 1 year or more

6. GROWTH OF LIFE INSURANCE PERSONNEL IN THE U.S. AT SELECTED DATES



*Figures not available

LIFE INSURANCE

AND EDUCATION

BY S. S. HUEBNER

President Emeritus of the American College of Life Underwriters. Dr. Huebner retired in 1953 after 49 years of teaching insurance at Wharton School, where he initiated the idea of insurance courses. He was also instrumental in founding the American College of Life Underwriters in 1927. The S. S. Huebner Foundation for Insurance Education was instituted in his honor.

Broadly speaking, the subject assigned for this article divides itself into two main parts; 1) education as the great ally of life insurance progress; and 2) life insurance, about the last newcomer of outstanding business subjects in the educational programs of our Colleges and Universities, as an essential addition to the educational curriculum of these institutions.

As I have stated elsewhere: "Fortunate indeed is the business calling which has succeeded in integrating itself into the higher educational system of the nation so thoroughly as 1) to draw its strength of manpower largely from that system, and 2) to have its usefulness and nobility properly and forcefully reflected through that educational system to the public at large. Every profession seeks these two objectives." Although late in starting in our collegiate system of education as organized instruction on the university level, insurance has made great headway in our universities and colleges in recent years, especially since 1927, and bids fair before long to attain the desired goal.

A detailed national survey (by David McCahan and Morris Hamburg), covering the academic year 1952–53, shows that 239 universities and colleges in the United States were offering a total of 972 insurance courses, with an enrollment of over 30,000. These courses were distributed as follows: general or survey courses covering both life and property insurance, 204; special life and closely related courses, 189; actuarial science and mathematics of insurance, 41; property and casualty insurance, 333; insurance law, 88; social insurance, 37; insurance research 27; and miscellaneous, 58. The above summary of the survey, it should be stated, does not include 72 Chartered Life Underwriter (CLU) courses and 54 Chartered Property and Casualty Underwriter (CPCU) courses, offered by universities and colleges in non-insurance subjects but nevertheless closely related to insurance underwriting in the field and required by the CLU and CPCU programs of The American College of Life Underwriters and The American Institute for Property and Liability Underwriters, and having respective enrollments of 1,384 and 972 students.

The life insurance industry is a beneficiary in many ways because of the rapid progress since 1927 in life insurance education on the collegiate level. Space limits make possible only a brief mention of the following six outstanding advantages derived by the industry, and which imply a sense of responsibility of the life insurance industry to collegiate education:

1) The life insurance industry is now firmly committed, through the medium of The American College of Life Underwriters and its Chartered Life Underwriter (CLU) program, to have its field representatives, who contact and "program" the buying public, properly trained professionally. The CLU program does for life underwriting what the CPA program does for accounting. The standards of the two programs are equally high. And just as accounting depends on Universities and Colleges to assist in the educational process for the attainment of the CPA designation, so life insurance must have the same type of assistance for the attainment of the CLU designation.

Cooperation from higher institutions of learning has been exceptionally generous. At present over 140 universities and colleges are willing to give all or a substantial part of the necessary instruction for CLU students. About 100 CLU study groups are conducted in universities and colleges or under their sponsorship.

In 1953, 124 universities and colleges offered 164 special courses in life insurance economics, principles and practices, plus an additional 107 courses covering subjects required by the CLU program other than life insurance per se, or a total of 271 special life insurance courses and courses closely related to life underwriting, with a total enrollment of over 6,500, i.e. courses affording opportunities for life insurance underwriting careers.

2) Exclusive of the large group of field underwriters, already referred to, the life insurance industry is dependent very largely upon universities and colleges for the training of the many specialists needed by the industry, such as actuaries, mathematicians, investment experts, lawyers, accountants, business management experts, medical men, and the like. Here also, as in the field service, there is an ever increasing and widening opportunity for college graduates. Although the largest single industry in the nation in terms of dollars (with $370 billion of insurance on the books and accumulated assets of $85 billion), let us not forget that this industry is still small compared with what it ought to be. All commercial life insurance in the United States averages little more than one year's income per American family. The human life value of family breadwinners, expressed in dollars, is such that prevailing life insurance on the books will probably reach a trillion dollars within the next decade and then keep onward towards the second trillion.

3) Life insurance companies are deeply interested, as claim payers, in

medical research to cure or prevent dreaded diseases. For example, heart ailments and cancer are responsible for the majority of life insurance claims today. The problem is clearly recognized; and the industry is contributing generously towards this type of research, and universities and colleges are receiving their share.

4) Education of the general public in life insurance, and indoctrination of that public in a higher sense of obligation to the family (man's greatest economic business) through the nation's educational system will help the life insurance industry to attain quickly the trillion dollar mark already referred to. When the indoctrinated public is contacted and guided by a professionally educated field force, the desired result will be inevitable.

In this connection, it is highly important to the life insurance industry that universities and colleges are already offering a large number of general survey courses in insurance economics and principles. As I have stated elsewhere:

> "These courses, although intended for lay students only, help to indoctrinate thousands of college students annually in sound insurance principles and uses of insurance, who, in turn, when returning home, will help to indoctrinate many more thousands with correct insurance ideas as well as a proper sense of obligation to the family, in such a way as to overcome their erroneous suspicions and other fallacious ideas about the so-called mysteries of insurance. These college graduates also are prepared better to meet underwriters half-way and will also do much to influence their acquaintances to take a more wholesome view of the great value of professional underwriting. Just imagine the importance insurance-wise of 12,000 college graduates, each having had a survey course in insurance, going back to their respective communities annually to become influential as family heads, business leaders, in the public school system, in the community's social institutions, in the press, in religious organizations, and in legislative halls, and, what is highly important, returning to their communities as the friends of sound life insurance. As time goes on the present annual returning total of 12,000 will double, and thereafter continue further with large increases."

5) The life insurance industry is anxious to have the elements of insurance properly reflected in the nation's high school system and realizes that education percolates from the top (collegiate) down to the high school level. Accordingly, the industry's Institute of Life Insurance is motivating and financing the so-called "Graduate Workshop in Family Financial Security Education" at some twelve universities located throughout the country. The objective is to instruct teachers in secondary schools, especially those engaged in the teaching of business education, home economics, and the social studies, so that they may, following the completion of the course, introduce the subject matter of their instruction at these universities into the curriculum of their respective schools.

6) One of the most outstanding handicaps to insurance education, owing to the rapid growth of insurance courses on the collegiate level, has been the great dearth of adequately prepared teachers. Recognizing the seriousness of the problem and the need for quick action, a large number of life insurance companies, in 1940, created and financed the S. S. Huebner Foundation for Insurance Education, to be operated under university auspices. Now financed by 128 life insurance companies, the Foundation exists to increase the supply of well-trained teachers of insurance, to promote research within the field of insurance, to stimulate educational activities through its insurance publications, and to promote the teaching of insurance on a career basis in universities and colleges. About fifteen to seventeen carefully selected post-graduate students, from all sections of the country, are awarded scholarships and fellowships each year on a full-time study basis to specialize for their doctor's degree and for a collegiate teaching career in insurance. About forty former fellows of the Foundation have already been placed as insurance teachers in about that many different universities and colleges, and the number of new teachers has been quite regular from year to year. As I have written elsewhere, "We need only contemplate the significance of so many well-trained teachers, each becoming a center of influence insurance-wise in his community, and through his students a center of influence nationally."

Emphasis has been given in the foregoing discussion to 1) the importance of life insurance today in widening the opportunity for the nation's youth to secure profitable employment along many lines on a growing scale because of the extraordinary growth of the life insurance industry; 2) the financial contributions already being made by life insurance companies to aid research and the development of career teachers of insurance; and 3) the initiation and motivation of many new collegiate courses through such agencies as The American College of Life Underwriters and The American Institute for Property and Liability Underwriters. The life insurance industry is looking increasingly for college graduates to fill its important positions in the home offices as well as in the field underwriting service. The industry is being professionalized rapidly and the cooperative help from higher education becomes self evident. But there are two additional factors of importance which need to be stressed:

1) Life insurance represents such a necessary and universal service to man that universities and colleges, even if they do not contemplate the introduction of career-making courses, should nevertheless offer a general survey course for the lay student body. This is particularly applicable to our collegiate schools of business, where such a course should be listed in the group of "required subjects." Most of the required business subjects today are not nearly so important to daily family life (man's most important business) and to the community as a whole as is life insurance.

2) Life insurance greatly widens the opportunity of the nation's youth to finance a higher education. This it does in two main ways. On the one hand, there is the use of life insurance by parents to accumulate, in advance, the necessary funds to meet the outstanding parental objective of financing the higher education of children. We are told that about 40% of the students in American Universities and Colleges are dependent upon self-help either partially or totally, and that about 17% earn their entire way through college. When this service is better understood by parents, they will regard life insurance as an essential program for preparing systematically for the future's unavoidable costs of higher education.

Where the plan of previous accumulation of funds has not been used, life insurance again offers a solution by enabling students to finance their education through loans, made effective immediately through life insurance policies written on their own lives for the security of the creditor against a premature death of the debtor before the repayment of the loan. The character and ability (life value) of the policy holder serves as the collateral behind the loan, but only if insured against death. In this way many are enabled to borrow, although they do not possess tangible property collateral.

LIFE INSURANCE

AND THE COMMUNITY

BY DEVEREUX C. JOSEPHS

Chairman of the Board of New York Life Insurance Company. After his graduation from Harvard, Mr. Josephs entered the investment banking business. He retired as general partner of Graham, Parsons & Company in 1939 to enter the insurance business. He presently also serves as chairman of President Eisenhower's 31-man Committee on Education Beyond High School.

LIFE INSURANCE is a great national industry and in recent years it has been growing at an unprecedented rate. In a free society, such a rise and growth amounts to a popular mandate, and presupposes a special value to society. Therefore, in assessing the importance of life insurance to the community, there are two ready-made criteria: first, its size, and second, its value.

To what extent, then, is life insurance an influence on the American community? How widely is it accepted and used? In a word, how "big" is it?

The answer is that life insurance is very big and there are statistics to prove it. The assets of all life insurance companies in the United States amounted to $90 billion at the end of last year and they are growing at the rate of $6 billion a year. Coverage is widespread and four out of five of all families in the United States have one or more policies. In a nation of 165 million people, there are 107 million policyholders who carry an estimated $373 billion of life insurance coverage.

As for the future of life insurance, a recent article in *Nation's Business* based on the labors of experts in statistics, economics and life insurance predicted that by 1970 total life insurance coverage in the United States would reach the trillion dollar mark. The article noted, by the way, that the life insurance industry would probably be the first to attain that magnitude.

Now it should be stressed that size itself has a function in our society. Companies either truly national or merely widespread do much more than provide a plentiful supply of goods and services under the persistent authority of competition and the dictates of the customer's choice. For example, they perform a very useful function in keeping connected the complicated machinery of our modern industrial economy.

Our society places, and I hope will always place, a heavy emphasis upon individual initiative. But freedom of choice carries an inherent weakness unless the separateness is held together by strong ties. The national companies provide a 2-way—indeed a multiple—communication between localities. Thus when better methods or higher standards are developed in one community, they tend to spread through a company structure with epidemic rapidity. For example, through the suggestion program of my company we are constantly getting ideas and market preferences from our various branches which are applicable to our operations elsewhere.

Such interchange of ideas seems to me to be a very important role of national companies. In this day and time when national unity is the root of our salvation, varying views can be quickly exchanged and mutual moderations secured through the interlaced activities of enterprises at once local and widespread.

Life insurance companies share many of these attributes of large national companies. On the other hand, we are a very special type of national organization. Some companies manufacture their products at one or two centers and distribute them by jobbers or a sales organization throughout the country. Our operation is quite different—our product is an insurance policy—a contract. And it is not manufactured in New York, for example, or Hartford or Newark, New Jersey.

It does not exist except as an unsigned printed paper full of blanks until two local people in Seattle or Minneapolis or Atlanta agree to make it into something tangible. Thus our product is manufactured locally, paid for locally, and the dollars never get very far from the area where the contract is made. We do not use raw material that comes from Texas or Chile or Canada. It is not 50% of our finished product, or 10% or even 1/10 of 1% of it. Our only raw material is paper and the main office, in our case in New York, should not be confused with a factory manufacturing the product to be sold.

Through its investment function, too, life insurance is important to both the national and the local communities. The $90 billion in assets that I have mentioned forms an enormous pool of investment capital which nourishes a staggering variety of industries and enterprises. For it is an essential fact about life insurance that it is a dual operation. Money is accumulated from innumerable policyholders who are taking precaution against possible contingencies; but until it is called for it is invested productively to the advantage of the policy owner and his community.

How is this money invested? What is its importance to the country at large and to the thousands of local communities it comprises? To start with the home itself, more than a quarter of life insurance reserves is invested in mortgage loans. Life insurance companies hold an aggregate $29 billion in mortgage loans. Some of this money is invested in commercial and industrial building, but the largest share is held on private homes, including farms. The availability of these funds has stimulated the construction of homes for several million families, and as a result there is hardly a rural,

urban or suburban community in the United States that has not benefited.

In fact, a number of life insurance companies have tackled the housing problem directly and have gone into the business themselves. New York Life, for example, is actively engaged in community planning and has built four developments in different parts of the country.

These projects undertaken by New York Life, and similar projects built by other insurance companies, add a new dimension to life insurance company operations; not only are we an important factor in communities, but we are in fact creating communities.

Another important area of investment for life insurance companies is provided by public services. Through their purchase of bonds, life insurance companies expedite the construction and contribute to the maintenance of highways, railroads, bridges, public utilities and educational facilities. Given the range and scope of these services, and their influence on the daily lives of people, the importance to the community of these funds accumulated by life insurance companies can be guessed at.

Besides investing in services, life insurance companies put their reserves to work in manufacturing industries of every conceivable sort. In our complex industrial society, a typical man uses or comes in contact with thousands of different manufactured items every day. But I would be hard put to it to mention a single category of goods—from toothpaste to automobiles—in which life insurance companies do not have a financial stake.

Incidentally, investment itself has a double function in a free industrial society such as ours. By supporting industry, it makes an increasingly wide range of goods and services available to the consumer. At the same time, the industries themselves provide employment and thus income to the millions who constitute the consuming public. The net effect of investment, therefore, is to raise the standard of living of the entire community.

Finally, the life insurance industry provides jobs directly as well as indirectly. Our business gives employment to almost 400,000 men and women in the United States alone.

Roughly half this number are agents. The work of life insurance agents has direct and immediate implications for the community they serve for it is natural for them to participate in church, hospital, charitable and service club activities. Of course there are occasional overtones of self-interest in this sharing in community work. But what is wrong with that? It is the very essence of our free enterprise system built upon a balance of self-interest and community responsibility.

I set down at the beginning two criteria by which the importance of an industry to a community may be gauged: extent and value. I hope that this hedge-hopping expedition over the territories of life insurance has given some idea of their vastness. The size of reserves, the number of families insured, the amount of insurance in force, the spread of investments—they all contribute to an understanding of the scale of life insurance operations.

It remains for me only to establish the value of life insurance—the usefulness of it. Well, what can be more useful than persuading people to make provision for both the unexpected and the inevitable? Beyond that, the industry does not stand in need of words and music. The speed with which life insurance has grown in the past 115 years tells the story. It has been generally accepted as a popular agency of risk-sharing and thrift.

That life insurance as an institution should flourish in the United States as nowhere else in the world is no accident. For both depend for their success upon the same twin values: individual initiative and group cooperation.

The importance of life insurance to the American community is that it both expresses and supports these basic democratic values.

* * *

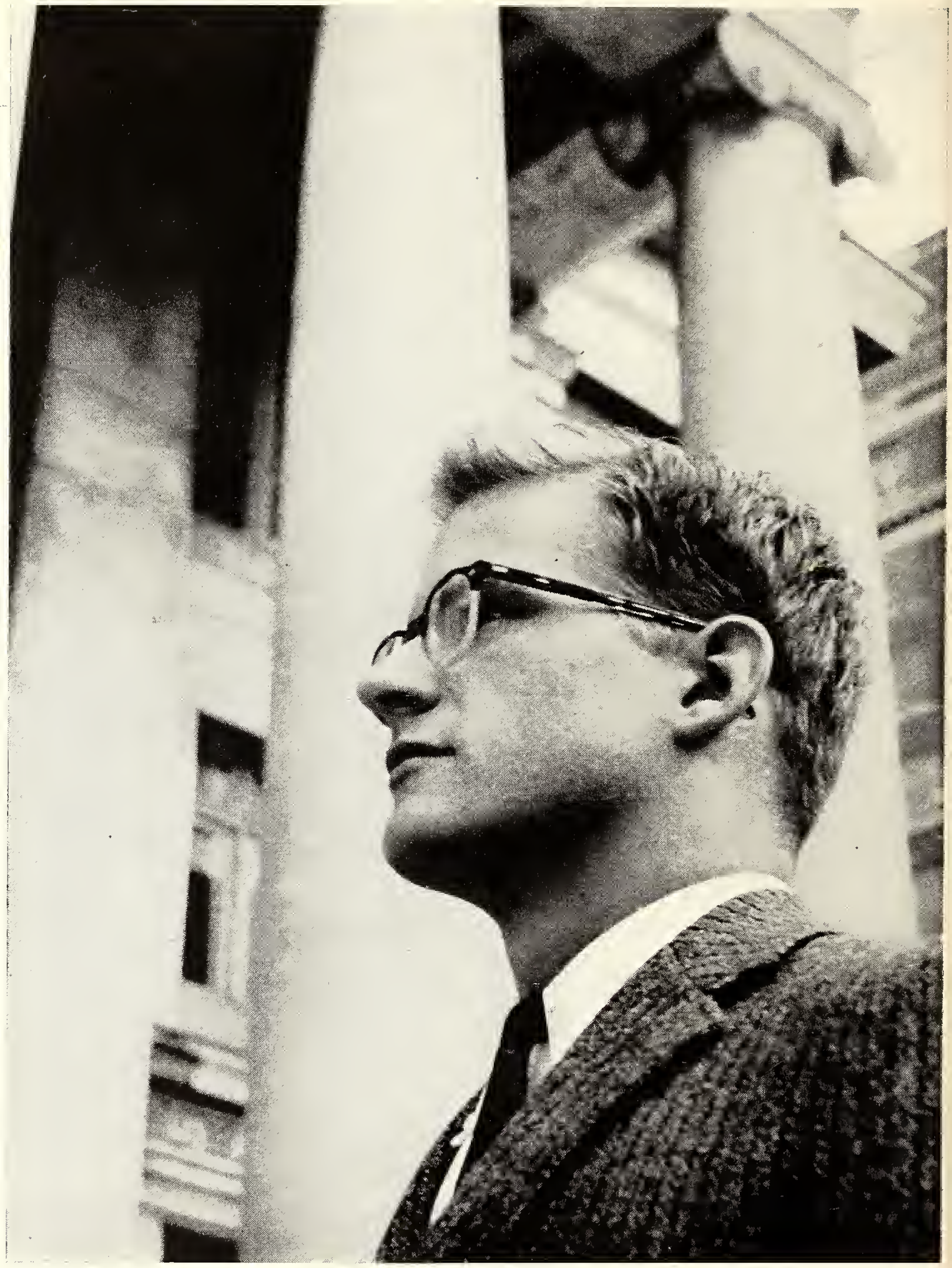
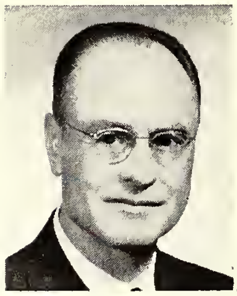


Photo by Richard F. Spark, Yale Daily News

PART II CAREERS IN LIFE INSURANCE

THE CHALLENGE OF MANAGEMENT

BY CARROL M. SHANKS



President of the Prudential Insurance Company of America. Mr. Shanks graduated from the University of Washington and Columbia Law School, and has taught law at Columbia and Yale Law Schools. Before being elected to the presidency of Prudential, he served that firm as general solicitor. In addition, he is presently a director of several large companies and of the Institute of Life Insurance.

THE AMERICAN life insurance industry is seeking capable, management-minded young men and women to share in its growth.

Right now, the opportunities for top-flight people entering a management career in insurance are more impressive than they have ever been.

The big reason is that the insurance business has been excellent and promises to get even better. At present, more people are protected by more life insurance than ever before.

At the beginning of this year, 103 million Americans owned a total of $373 billion in life insurance, with four out of five families covered to some extent. In the 1953–1955 period alone, ten million persons were added to life insurance rolls in the United States, and life insurance in force increased by almost $100 billion.

That was substantial progress. And there is every reason to believe it will continue. There are important needs and exciting new challenges to be met, and the insurance industry is working hard to meet them.

It is reasonable to assume that as insurance coverage expands, as new insurance products are marketed, the industry's work load, its management staff and the opportunities it offers for advancement also will expand.

At our company alone, we believe we will need almost 1,000 persons in the next decade to fill new jobs and vacancies in middle-level management and above. This increase will almost double the firm's present management staff.

More than 450 of these positions will be in line management. Undoubtedly similar expansion will be necessary throughout the industry.

Now basically *what kind of job is a management job? What does such a position involve? What are its dimensions?*

Put simply, every management position involves four things: making decisions; supervising people, often large groups of people; delegating responsibility, which involves getting work done through other people; and control, making sure assignments have been completed and completed properly.

Of course, management positions, like people, come in a variety of sizes and types. A middle-management position at our company, for example, may involve supervision of several hundred people. Or it may mean supervision of much smaller units. To a considerable extent, however, the real dimensions of such a job—what can be accomplished in company growth and personal achievement—depend on the dimensions of the person in that job. And each one is given as much latitude as possible to prove himself.

What about training?

Many insurance companies have formal programs to develop management talent. The one at our own office is similar to several throughout the industry.

It involves three years of job rotation—a period that might be called basic training—during which the trainee is given responsibility for successful performance of a variety of supervisory jobs, and through this experience obtains a broad understanding of the company's operation and the functions of management in this operation. Hard work is a basic ingredient of the program. Training is provided both in line units and in staff departments such as personnel, cost allocation, and methods. Classroom instruction also is usually involved.

In one important sense, the program is largely a do-it-yourself venture since the trainee's success depends completely on how well he performs.

What about salary and employee benefits?

Unfortunately up-to-date figures on remuneration are not available for the industry as a whole. The salaries and benefits young management personnel in one company receive, however, should offer an indication of what the situation is in at least some of the other companies.

During his three years of training, the trainee advances to junior management status, and as his job level rises so do his earnings. At the completion of such a program, the trainee usually is earning at least $6,000 annually, and in some cases substantially more.

Employee benefits include a flexible retirement plan, and group life, hospital, disability, medical-surgical, and major medical insurance. In addition, lunches are served in attractive cafeterias to all home office employees. There also is a liberal vacation plan, and every year several holidays are observed as days off with pay. Broadly similar benefits are offered by other insurance companies.

What can be expected in the way of advancement?

Promotion from within is almost a universal policy among insurance companies. And firms throughout the industry have so many opportunities for advancement that it is only necessary to display ability in order to move ahead. It is not necessary to remain with a company for an extended period to achieve satisfactory advancement. Consider that 18 of our 53 vice presidents and second vice presidents

reached the second vice presidency at 40 or earlier.

What kind of people is the industry seeking?

The insurance industry naturally is interested in the best. We are seeking young men and women who have achieved impressive academic records at the nation's finest schools. We want applicants who have demonstrated outstanding qualities of leadership through extra-curricular activities and in other ways. We want applicants who are mature and personable, who have sound judgment, who like people and can get along with people.

We want young men and women who are seeking personal growth and the challenges and hard work that, as I see it, make growth possible and life worthwhile. We do not want applicants whose goal is a comfortable corner from which to observe the passing parade.

What it boils down to is this: we are looking for young people who some day can take over the leadership of the American insurance industry and shoulder its responsibility for making family life ever more secure. We are looking for young people who want to succeed in some of the most significant jobs in American industry.

What academic preparation is necessary?

It has been found that training in the liberal arts and in business administration can be very helpful to the management trainee. Courses in mathematics and English are regarded as especially valuable. It should be stressed, however, that men and women with broad preparation in other areas also have achieved success in insurance management.

For a better idea of just how college graduates with ability are faring in the insurance world, consider the experience of three young men who joined our company in recent years. These young men admittedly are outstanding, but, of course, so are the management trainees the industry is seeking.

Cliff Grohsgal is 27. He joined our company six years ago as a management trainee after his graduation from the University of Pennsylvania. His field at Penn was industrial management. Earlier, in a year at American University, he specialized in foreign languages.

Cliff is an assistant manager in the mail division. In this job he shares in the supervision of about 225 persons, who, among other things, sort, collect, and distribute some eight tons of mail per day (60 million pieces annually), and provide extensive telegraph and addressograph service.

This is the tenth assignment Cliff has had since beginning his career. His more recent jobs have brought with them increasing supervisory responsibility.

His training in the claim division involved the vital job of making decisions on the validity of insurance claims. In methods, he worked with men and women devising better ways to conduct office operations. As an underwriting trainee, Cliff was assigned to the department where decisions are made on applications for life insurance.

With our billing and accounting personnel, Cliff was involved in the task of reminding our millions of policyholders that premiums on their policies were coming due. With the agencies service unit, his insurance education dealt with the complex job of keeping track of agents' commissions and their success in selling new business and conserving existing business.

In personnel, Cliff earned his first promotion and first title. At the age of 24, he was named a job reviewer. A year later he rose to assistant job analyst. After another seven months he was promoted again, to job analyst. The three positions involved increasing responsibility in job evaluation, salary administration, and organization and staffing. Last April, he was given his latest assignment.

Cliff is learning insurance management in the best possible way. He is learning all about it and from the ground up.

John Saylor is 32. He joined The Prudential in 1947, a short while after he was awarded a bachelor of arts degree in economics at Cornell University. At present, he is manager and associate cashier in the cashier's division. His responsibilities involve administration of an office staffed by about 85 persons who maintain records of company bank balances, issue checks, handle the deposit and transfer of funds, and process certain payments received by mail among other things.

John began his Prudential career as a trainee in the division he now heads. As additional steps in his training, he was later assigned to an agencies records unit where statistical information, records and reports are prepared. He then was transferred to the underwriting division, to the claims division, to methods, and then back to the cashier's division.

A short while later, he was transferred to the treasury division, where in December, 1949, he obtained his first title: bank analysis and research clerk.

In the following year, when he was 26, he received an additional promotion. Early in 1951, he was promoted to junior administrative assistant in the treasurer's office. He was assigned to the banking arrangements section which opens and closes company bank accounts, analyzes the financial condition of the banks with which the firm does business, performs other research and statistical duties, and authorizes the format and printing of all checks.

In 1953, John was named an assistant cashier in the cashier's division. And after four months in that job he was transferred to the Company's North Central Home Office at Minneapolis in a similar capacity. He returned to the home office at Newark in February, 1955, as manager and associate cashier.

Tom Allsopp is 38. He is associated with the planning and development department and, at present, is the company's youngest second vice president.

Tom is a Princeton man, class of 1939. In 1936 and 1937 he spent summer vacations working for us. He joined the company on a full-time basis a month after his graduation. His major fields at Princeton were political science and economics.

After he joined the company as a full-time employee, he spent almost three years on assignments in the agencies and methods departments. Then there was a 3½-year interruption for military service.

Tom returned to methods in January, 1946. Seven months later he was named a senior methods analyst, a manager level job. After an additional seven months, he rose to assistant director of organization and staffing. The following month he was shifted to the personnel division as an assistant director. That was just before his 29th birthday.

The following year he was advanced to general manager in charge of administration of the ordinary policy department, which was staffed by almost 1,600 persons.

Early in 1950, Tom was made general manager in charge of administration for the company's Canadian Head Office in Toronto. Soon after, he was elected to the position of assistant secretary, thus becoming a company officer at age 31. In 1953, he was transferred to the company's South-Central Home Office at Jacksonville, where he was promoted to executive general manager. And in February, 1955, when he was 36, Tom returned to Newark as a second vice president.

Cliff Grohsgal, John Saylor, and Tom Allsopp have found opportunity in the insurance business. There is a possibility that you will, too.

OPPORTUNITIES IN THE ACTUARIAL FIELD

BY EDMUND M. McCONNEY

President of the Bankers Life Company. Mr. McConney was born in the British West Indies and educated at Harrison College there. He is a fellow and past president of the Society of Actuaries and chairman of the board of trustees of Drake University. Joining Bankers Life as an assistant actuary in 1919, he was named president in 1946.

CONTRARY to a fairly generally held opinion, an actuary is neither a person afflicted with a form of insanity so rare that he is useful to an insurance company, an insurance consultant, or in connection with pensions, nor is he a super-mathematician. There may be, of course, occasional exceptions to such generalizations.

The modern actuary is simply a businessman with a natural flair for mathematics, particularly the types of mathematics dealing with the probabilities of the occurrence of the various contingencies that affect human life; e.g. birth, marriage, sickness, unemployment, accident, retirement and death, and the financial effect of these contingencies both on the individual and on the national economy. He is thus something of a natural scientist and a social scientist as well.

A workable knowledge of the mathematical probabilities involved in games of chance with cards or dice is of great help to an actuary; ignoring, however, the specious theory that the way the cards or dice have been falling in prior hands has something to do with the probabilities in subsequent hands.

I mention this in order to dispel any mystery or miasma that may hover around the work or recreational activities of actuaries. A career as an actuary offers high financial rewards as well as variety and satisfaction to an inquisitive mind and the rapid developments in many fields of insurance, and pensions are a continuing challenge to one's wits.

THE DEMAND EXCEEDS SUPPLY

The demand for actuaries far exceeds the supply, and, consequently, there is a wide field for rapid progress for an ambitious student who is capable and resourceful.

A couple of generations ago most of the actuaries in the United States and Canada came from Scotland . . . Scotsmen, it seems, take naturally to the conservative side of financial affairs. Nowadays, however, we grow our own actuaries in our universities and colleges, on this side of the Atlantic.

As some indication of the shortage of actuaries, the following table shows the growth in the U.S. and Canada of two main industries which require actuaries, compared to the growth in the number of fellows and associates of the Society of Actuaries (and its predecessor organizations).

These figures indicate quite clearly that the need for actuaries has grown far more rapidly than the supply. However, as so often happens, figures do not tell the whole story. In addition to the very large increase in the volume of insurance coverages in force, there has been an equally impressive growth in the variety of such coverages. As our economy develops, new needs for insurance coverage appear. And as our people become more familiar with the flexibility of insurance, they are demanding insurance plans designed to meet their changing needs. The services of actuaries are needed to aid in the development of such insurance plans.

* * *

There are many forms of specialization in the broad field of actuarial work.

Most of the actuaries are with insurance companies, and their work is in connection with alleviating the economic loss, both to the individual and to the nation, which accompanies family catastrophes due to accident, sickness, extraordinarily long illnesses, premature death, etc.; and in connection with providing for old age.

A growing number act as consultants on similar problems, particularly in regard to pension plans, either with consulting firms or as employees of the larger national corporations.

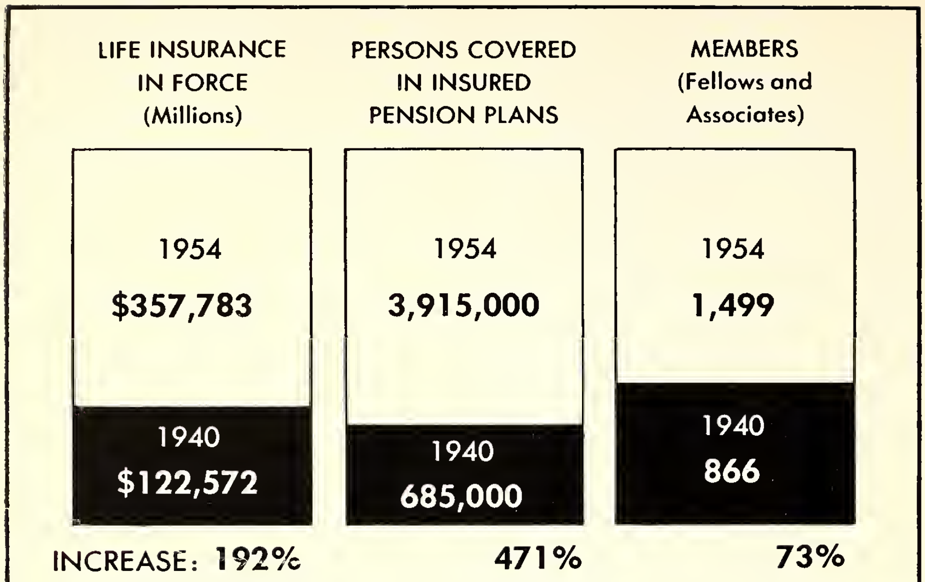
Some actuaries, particularly those in governmental affairs, deal with statistical studies such as those involving the census and population tables, available manpower, causes of death, rates of fertility and other factors affecting the population of the nations.

Other actuaries deal with broad social problems such as social security or unemployment benefits.

Many of these activities involve financial calculations based on the theory of probabilities and on rates of interest which are assumed for many years into the future but based on the experiences of the past modified by the possibilities that may occur.

As Clemenceau said, "We must be prepared for all things . . . even those that may occur."

The duties of the actuary range over a broad field. In a life insurance company perhaps his most important duty is to determine the premium rates to be charged for all the various coverages offered by the company. And in a mutual company he must determine each year the amount of distributable earnings, after provision for all liabilities and contingencies, and then determine how those earnings shall be distributed equitably among the policyholders. This work requires constant review of the mortality experience among those insured, the interest rates earned by the com-



GROWTH OF SOCIETIE OF ACTUARIES

pany and the expenses of operation.

The actuary usually works closely with the company's medical and underwriting departments in order that the underwriting of risks shall be consistent with the premiums charged for the various classes of risks.

Drafting of policy forms is usually done by the actuary in collaboration with the legal officer. Statements of the company's financial condition are usually prepared by the actuary in conjunction with the comptroller.

The actuary often works with the executives of the sales department on a variety of problems such as development of new insurance plans, preparation of sales and advertising material, compensation plans for fieldmen and assisting men in the field with technical problems.

The duties of the actuary in a life company therefore place him in close touch with all of the various departments of the company. And that makes the actuary's work very interesting.

* * *

The educational background that is desirable for one who wishes to enter actuarial work should include not only the usual mathematical subjects in elementary and advanced algebra, differential and integral calculus, descriptive and analytical geometry, the principles of mathematical statistics, probability and finite differences—but, also, the following subjects which are valuable in any business career—English composition and speech, accounting, business law, finance and economics.

It is well also to have a broad cultural background and some knowledge of basic human relationships.

As was well said over 60 years ago in the Institute of Actuaries of Great Britain:

> "An actuary should be a man of general culture with a knowledge of both books and men, and the more he has of both the better."

The usually recognized mark of a full professional status is the successful completion of the series of examinations given by the Society of Actuaries.

The first three of these examinations can easily be taken while in college as they are in language aptitude and general college major mathematics. It is highly desirable that these be taken then as they help the student decide whether or not he has the knack of applying the principles of mathematics to practical problems. Also, success in passing them while in college usually results in a higher initial salary on entering the business world.

The five other examinations are usually taken after employment since practical experience is helpful, in fact, almost essential, for passing them. Preparation for these tests is a challenge and requires long hours of home study. Success in them, however, is rewarding since the field is far from crowded.

* * *

Actuaries frequently advance to administrative and executive positions, since employers are always looking for those who can combine and mellow their technical ability with an understanding of human nature.

The successful actuary will need to cooperate with other personnel on broad policy decisions and direct the operation of an actuarial staff. Therefore, he must be able to work with many types of people—both those who think logically and those who think emotionally—both within and without his organization; salesmen, policyholders, employees, professional and managerial personnel.

It will be seen, therefore, that a good command of the English language and the ability to communicate effectively to others the highly technical actuarial principles, techniques and decisions is a vital attribute.

Since professional status requires a combination of home study with employment, the budding actuary must be prepared to keep in good health, and practice rigorous self-discipline in his studies.

* * *

Since the need for actuaries is great, there is no difficulty in obtaining a satisfactory position if one has an ability for mathematics and an adaptability in dealing with people.

The principal disadvantage is the relatively long period of training for the actuarial examinations involving home study and self-discipline. While this may reduce participation in some social and recreational activities, there is a stimulating challenge in the examinations and an exhilaration in passing them.

The actuary enjoys highly favorable working conditions usually in modern office buildings. His work provides a variety of interesting problems and brings him in contact with many kinds of people. And he usually has a position offering personal future security with pension arrangements and group insurance benefits.

The actuary can be proud that he is contributing by his work to the welfare and security of his fellow-men and to the stability of his nation's economy.

As has been well said by a leading actuary, Professor C. Wallace Jordan:

> "The actuary has many civic responsibilities. As one who has been uniquely trained as a specialist in the analysis of complex financial problems, the actuary takes a particular interest in such matters as social insurance, taxation, anti-inflation measures, and welfare legislation—proposals that the average citizen is usually poorly equipped to evaluate. The actuary thus has a duty to advise his fellow-citizens and the government on these matters of fiscal policy. The government frequently takes the initiative in asking a committee of actuaries for recommendations on proposals relating to their specialized fields of knowledge."

* * *

HOME OFFICE

UNDERWRITING

BY LEIGH CRUESS

Vice President and Chief Actuary of the Mutual Life Insurance Company of New York. Having received BA and MA degrees from Queens University in Kingston, Ontario, Mr. Cruess became a clerk in the actuarial department of the Home Life Insurance Company. He joined Mutual of New York in 1941, being appointed to his present post in 1948. Mr. Cruess is a fellow of the Society of Actuaries.

UNDERWRITING is a term not always understood by those outside the insurance industry, and perhaps the first logical step for this article should be to make clear what is meant by underwriting. In life insurance, as in other types of insurance, the insuring company assumes financial risks in return for certain financial payments, based on its own appraisal of the individual risk under consideration. It is this acceptance of risk that is known as underwriting and the people charged with this responsibility are underwriters.

It should be mentioned that salesmen of insurance also have adopted the term underwriter as an occupational designation. To avoid confusion we sometimes distinguish between these two groups by referring to sales personnel as field underwriters and to the others as home office underwriters, home office being the usual term for a company's head office.

THE PURPOSE OF LIFE UNDERWRITING

To evaluate better what this offers as a career it may be helpful to understand something of the purpose of life insurance underwriting. In assuming life insurance risks the insuring company's essential consideration is the question of longevity. For each individual risk there is an appraisal of the probability of average longevity or of the degree of deviation from average. Many different factors may affect the individual's length of life—what has happened to him in the past, his present physical condition, his character and mode of living, his occupation and economic status, liability for military service, special activities such as aviation, hazardous sports, etc. Dealing as we do with human beings the underwriter finds practically all activities of man and his environment, even his motives and other mental reactions, are of interest, and any knowledge about them can be brought into play in our underwriting appraisals. Thus the underwriter must maintain a continuous interest in all human endeavors and their possible effects on the longevity of human beings. This means keeping abreast of many things outside the insurance industry—world political conditions, economic conditions and scientific developments of all sorts.

As a basis for our work there are scientific, statistical studies of the actual experience with large groups of insured people. Without going into detail it may be interesting to mention a few of the many factors studied by insurance companies for their effects on longevity: overweight and underweight, medical impairments and past medical histories of one sort or another, occupation, sex, nationality, amounts of insurance, purpose of insurance (whether for family or business protection), aviation, military service, residence, and there are many others.

Equally important are developments outside the insurance industry, in the field of medicine and public health, in the improvement of economic conditions and the effect of a higher standard of living, in industry as affecting occupational hazards, in aviation safety, etc.

VARIETY IN UNDERWRITING

If variety is the spice of life the underwriter's job has plenty of spice. In a large company handling a couple of thousand applicants for insurance each week here are some of the actual problems that come up for decision: a great variety of medical questions, a considerable number of hazardous occupations involving accident and health hazards in different degrees, atomic energy, aviation activities of various sorts, military service liability, foreign travel to all parts of the world, hazardous sports like mountain climbing, skin diving, sports car racing, big game hunting, problem cases because of unfavorable character or mode of living, possible speculative cases because of inadequate financial resources in relation to amount of insurance.

Many cases become problem cases because of conflicting information or insufficient information on which to base an underwriting decision. But for practical reasons decisions must be made without further delay or expense for securing additional information. This calls for exercise of the underwriter's judgment. After weighing of pros and cons the decision is made and only time will tell if the underwriter's judgment has been good. Nobody can expect the right decision 100% of the time, much as this is desired, but the good underwriter achieves a pretty high batting average. This is perhaps the most challenging aspect of the underwriter's work, certainly one of the most interesting, involving the use of his discretion and judgment as to when to take a chance and when not to.

An important phase of the underwriter's job is his relationship with those who sell his company's products. This presents no problems when things are running smoothly, but there are unfavorable decisions, delays and resulting irritations. Tact, patience, understanding of the salesman's problems and the ability to explain satisfactorily both verbally and in writing

are important assets to possess. The inflationary trend of recent years with rapidly rising costs of operations has accelerated study of underwriting processes with a view to reducing operational costs. Some have been simplified, others have been eliminated, and research into the economics of our procedures continues. It may be news to many that a large proportion of life insurance is issued without medical examination, restricted to younger lives and smaller amounts of insurance. While non-medical, as we call it, has been practiced for some 35 years in the United States and Canada, recent years have witnessed its extension to more companies and to higher amounts of insurance because increased costs of medical examinations have made this extension economically practical. The study of underwriting procedures is now an important phase of underwriting research.

Underwriting is both a science and an art—a science in that we try to establish by study as much factual basis as possible, and an art since much still depends on the underwriter's judgment and discretion. The elements of a broad college education are the best initial training, in my opinion, for such a career. Then the life insurance industry and individual companies offer opportunities and direction for further education and training. There are two underwriters' organizations which give professional standing to their members, the Home Office Life Underwriters Association and the Institute of Home Office Underwriters. Between them they cover almost the entire life insurance industry of the United States and Canada. Jointly they offer courses of study and examinations, awarding certificates of proficiency to the successful candidates.

UNDERWRITING:
SCIENCE AND ART

And now a most important item to the young man selecting his future life work, the material rewards or financial remuneration it offers. To the ambitious man there is, of course, the expectation of reaching the top ranks in his profession. In practically every life insurance company in the United States and Canada underwriting is in the hands of a major executive official, usually a vice president. His immediate assistants, one or more according to the size of the company, are generally on the junior executive level. There are some companies where the underwriting executive has risen to the presidency of his company.

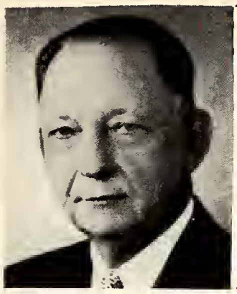
I can honestly recommend underwriting as a career for the college graduate.

* * *

ELECTRONIC

APPLICATIONS

BY MALVIN E. DAVIS



Vice President and Chief Actuary of Metropolitan Life Insurance Company. Mr. Davis has addressed various groups of executives on the use of electronic equipment for office operations, and has recently returned from a circuit of such addresses in Europe. He is a graduate of Wesleyan University.

GIANT BRAINS, Lightning Calculators, Electronic Computers, Magnetic Tape, and Electronic Data Processing Equipment are all expressions that have come into the business world within the past ten years and refer to a new facility for performing office work that is revolutionizing business methods. Such equipment is expensive, and hence must be used efficiently. Its great speed, flexibility and capacity make possible the bringing together of various office operations that under older methods were separate entities.

The advent of this type of equipment creates the need for management and supervisory personnel with detailed knowledge of a company's office operations over a much broader field than has been necessary in the past, coupled with an intimate familiarity with the best manner in which various types of electronic equipment can be used. Such personnel will be needed not only during the installation of electronic equipment but will also be needed to manage and supervise its operations. This will include the maintenance of the efficiency of the system by devising new techniques and taking advantage of new equipment as it is developed in the future. The growing use of this type of equipment is consequently opening up a much wider field in office management and supervision for college graduates interested in business administration.

A life insurance policy is a contract that usually stays in force for many years. During its lifetime, the insurance company must not only maintain records for the billing and collecting of premiums, but also records regarding the status of privileges available to the insured. For example, the insured may borrow against his policy as security, and the amount of loan, together with the interest thereon from year to year, must be recorded. Most policies entitle the insured to receive an equitable share of the company's distributable surplus each year in the form of dividends, and each of these dividends may be taken in one of several forms, such as cash or as an addition to the sum insured. Sufficient records must be maintained to indicate the amount of the particular dividends and the form in which the insured elected to receive each one. Records must also indicate any supplementary benefits that a policy may provide, such as benefits for total disability or for accidental death.

In addition to the records that must be maintained on each policy individually, there are many forms of records that must be kept in summary form for groups of policies. Management of the company requires numerous studies covering such subjects as mortality, contract termination and expense in numerous subdivisions. Records must be kept of the financial status of the company for management purposes and to meet various statutory requirements. All of this work requires a very substantial amount of record keeping.

While a life insurance company has in its home office organization a number of specialized personnel such as actuaries, investment specialists, lawyers, physicians and general office administrators, a substantial number of home office personnel is engaged in record-keeping and related work.

To perform this record-keeping as efficiently as possible, it has been found advisable in the past to organize it for routine handling and to subdivide it into small steps so that each clerical employee need only master a small portion of a long chain of procedure. This decentralization of work also requires a decentralization of the records themselves. As a result, clerical employees and their first line supervisors have become specialists on a phase of the operation of limited scope. Thus, the number of persons who have a full grasp of the scope of the entire operation has become fewer.

The advent of electronic equipment whereby instructions can be placed on magnetic tape and remembered perfectly is leading to a complete reversal of this past trend of decentralization of work and records. To use electronic equipment effectively, work is best done not in small separated pieces but consolidated so that as much as possible of the whole job can be done at one place and at one time. This reversal of the decentralization trend has important implications for management personnel in that it will increase the number of persons who will have to deal with the complexities of operation over a wide range of work.

While the persons who develop procedures to be used in electronic data processing equipment or who manage office operations which involve such equipment need not be electronic engineers capable of building or repairing such equipment, they must have some knowledge of the nature of such equipment and be well-acquainted with its capabilities.

Quite naturally they will first be impressed with its speed of operation. Individual steps are taken in millionths of a second and total operations which formerly required several days for manual work, or hours of time for non-electronic machines, now are accomplished in a few minutes.

The basic electronic elements which permit these high speed operations are not hampered by the inertia of mechanical parts nor the lethargy of mental

reflexes but act with the lightning speed of electrical currents. These elements consist of vacuum tubes, transistors, magnetic coils, which control the invisible electron flow through miles of interconnecting wires, and means of holding coded information in instantaneous availability. The central device is an intricate computing unit capable of performing the four fundamental operations of arithmetic and some operations of logic. As a primary adjunct, an electronic control unit directs the computer to move from step to step, operation to operation and from job to job, uninterruptedly and without human intervention.

Rapid operations call for rapid methods for supplying information and rapid methods for accepting the results and returning them to the human world. Long reels of tape on which tiny spots are either magnetized or left unmagnetized according to a code understandable to the device provide this rapid access to and from the machines. Other units convert this invisible code of magnetized spots into readable print at amazing speeds.

Untiring speed is not the sole virtue of these devices. They will handle a diversity of problems without change in the basic components of the computer. Once given a program of instruction, the control unit will lead the computer through a long complex trail of operations over and over again, never forgetting a step, never failing to recognize an unusual circumstance and with an accuracy beyond human ability.

These devices are a wonder of our age, and while many fanciful tales have been woven about them, they fall far short of replacing the human brain. Instead, they are the product of a human brain and require a human brain to organize and direct the operations which they can accomplish so rapidly. Their chief value lies in their ability to perform old tasks more rapidly and more economically, and to perform new tasks that could not previously be done.

Life insurance companies, together with many other industries, are aware of the potentialities of electronic equipment. It is so new, and in such an early stage in its development, that we must expect to have improved forms of equipment becoming available for many years. Life insurance is a highly competitive business and efficiency of operation is a major factor in meeting competitive costs and competitive services. As improved electronic equipment becomes available and as new techniques in its use are developed, procedures must be reviewed continually to maintain a high level of efficiency.

Companies differ considerably in size, geographical areas served, pattern of organization, plans of insurance offered and other factors. This may well mean that a system of electronic equipment which is the most efficient for one company is not the most efficient for another. Development of the best system for a particular company therefore calls for management and supervisory personnel with a broad and detailed knowledge of office operations, as well as thorough familiarity with the capabilities of different types of electronic equipment.

A knowledge of the nature of the operations of the particular company is a prerequisite to any selection of equipment.

The ability to analyze critically is obviously essential for one to succeed in this work. Fundamental operations must be broken down into their component parts and each examined in turn so as to judge its necessity. If the operation is considered essential, then thought must be given to how it may be best accomplished with the new techniques. The ability to think creatively is also indispensable. By its very nature, the work continually involves the exploration of new fields and the devising of new attacks on old problems. There are few traveled roads to follow, and a great deal of ingenuity is called for.

A keen sense of human values is necessary to achieve leadership in the adaptation of electronic equipment to life insurance operations. Human beings are more important than machines and they should not be treated as chessmen. Changes in procedures mean changes in work assignments, and enlightened business management requires that such changes be accomplished without loss to any individual whether it be financially or in his sense of dignity.

The application of electronic equipment to life insurance operations offers a rewarding opportunity to the college graduate who has the basic qualities of mind and personality needed for success in this field and who has acquired an adequate fundamental knowledge of his company.

Many of the key persons in the current studies dealing with the transition of their company's operations to electronic equipment are actuaries. They have had the opportunity through their employment to become not only well-versed in the actual procedures being followed in the various operating units of the company, but to acquire a knowledge of the reasons why these procedures are being followed and the ultimate uses of the end products. Their actuarial training has also fitted them to make careful analyses of complex procedures as adapted to one type of equipment and from this to devise parallel procedures adapted to a different type of equipment.

While it is not necessary for a person entering the field to obtain his knowledge of life insurance office operations by being employed in the actuarial department of a company and preparing himself for examinations of the Society of Actuaries, he may well find that this is an excellent way to obtain the necessary comprehensive knowledge of a company's operations.

An electronic data processing machine installation with the ability to make "logical" decisions from its vast memory in millionths of a second.

THE MD

IN INSURANCE

BY HARRY DINGMAN, MD

Vice President of Continental Assurance Company. Dr. Dingman served as medical representative for 24 life insurance companies in Detroit while carrying on his own practice there. He is the author of several books dealing with insurability and risk appraisal, and is a graduate of the University of Toronto.

THESE REMARKS are for senior medical students, hospital internes, and hospital residents. They are a sales message and, as you know, a sales approach should never be made negatively. Let's break that axiom.

Most of you should give no serious thought to insurance medicine as a career. You are not adapted. You are too idealistic, too individualistic. Indeed it is because of those qualities that you are studying medicine. Myself, when young, said to an uncle, a physician: "I propose to be my own boss even if that means a one man grocery store at a country crossroads." As if anyone can live to himself alone! Years later I dreamed he said to me: "I have now and then reflected on your comment when a hospital intern about a country store. I'm not sure but that was a good idea. Perhaps that is where you should be."

Truth is, of course, that few men have more bosses than a doctor. If he has one hundred patients he has one hundred bosses. He must satisfy each and every one of them at each and every service. Otherwise each and every one of them may exercise his privilege to seek another physician who is better informed or more sympathetic, or something. There is no continuing contract between physician and client. Relationship terminates at every contact.

Insurance medicine might well be called prognostic medicine. There is this important difference in insurance and clinical appraisals. The family doctor stresses the short range future. The insurance doctor the long range. The patient asks if he will get well, when, and what about recurrence. The practicing physician often dodges answering these questions as indeed he should. The individual is unpredictable. (Aren't we all? Even you. Even me. I mean I. Or do I?) The insurance company asks its physician what will happen in one thousand such individuals if accepted for liability in \$1000 units at this or that rate. The insurance doctor is guided in large part by the Commissioners Mortality Table that tells him that five of one thousand presumably healthy persons at age 36 will die within a year, 10 at age 47, 18 at age 60, 27 at age 70. Why? Auto accident. Drowning. Pneumonia. Virus infection. A lot of unexpected things that are unforeseeable.

History taking is important in clinical practice. No less so in insurance medicine. And again an important difference. The patient often maximizes his complaints. He wants his doctor to realize how sick he is, how much he suffers, how pooh-ed he is. The applicant for insurance tends to discount any ailment he has had. "I'll tell you something, doctor. I ain't never had nothing, no time. Not no how." Which explains why a good medical examiner must be a good cross-examiner. He should view his examination appointment as a possible battle of wits. "My examinee may be smart, plenty smart, but he's not smart enough to deceive me."

Incidentally, the medical examiner gets a \$7.50 fee for an insurance examination. The average recompense for an office call, or even a house visit, is not over \$5.00. Average I said. Less than that if discount is made for time spent on charity and deadbeats.

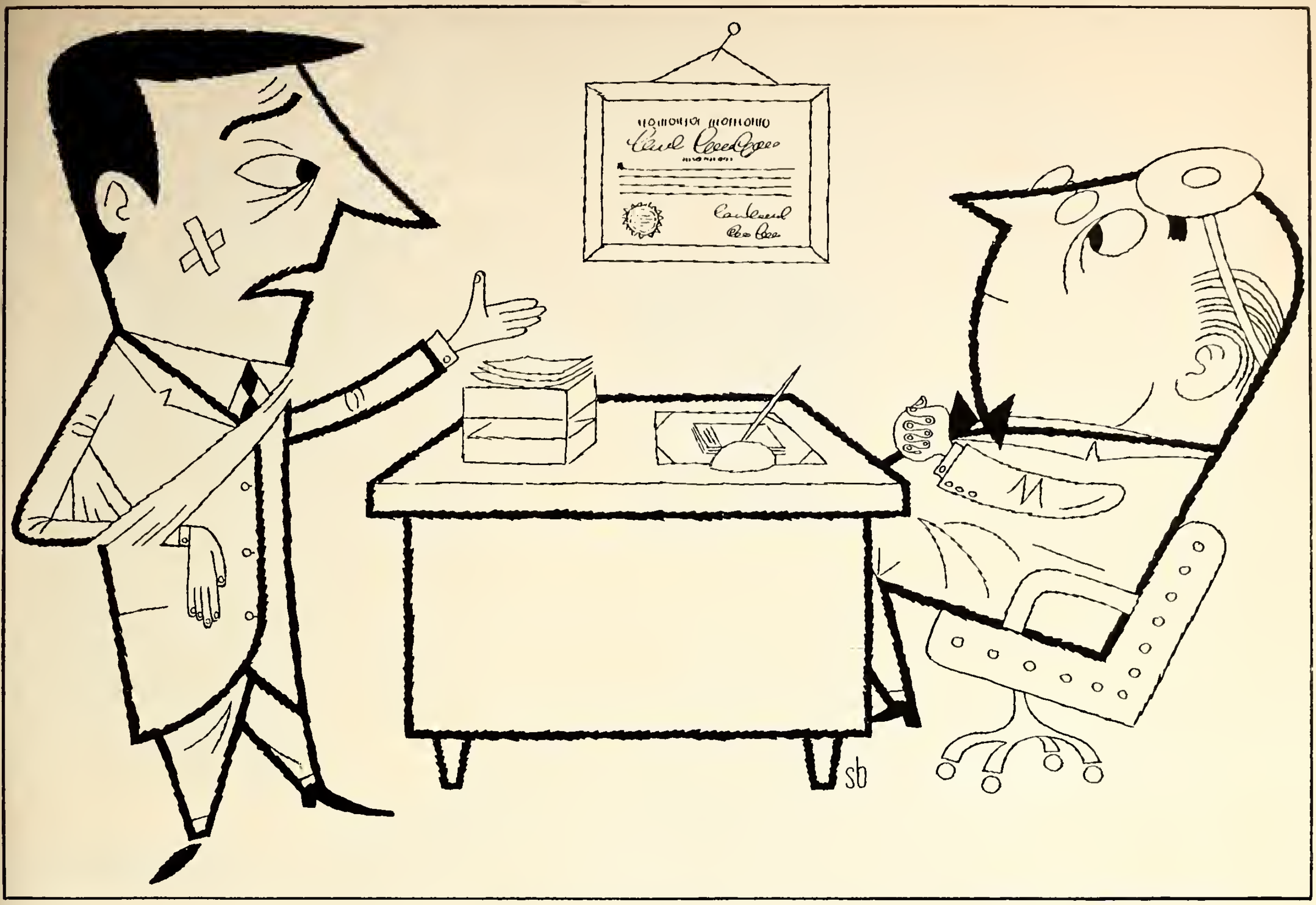
History taking is supplemented by physical examination and by such factors as habits, habitat and heredity, environment, finances, occupation and racial background. The problems are diverse, oftentimes intricate and difficult, interesting as all-get-out, with good judgment the appraisal determinant if adequate experience has not yet accumulated on the current issue. Important as medical training is, basic common sense is more so.

Medical and physical impairments constitute the majority of individual underwriting problems. Some, like weight and the simpler heart murmur cases, can be classified safely and are handled by skilled lay underwriters. Which leaves more time to home office medical directors for serious impairments and administrative work. He who becomes a medical director must choose early in his career—or the company will decide for him—whether he will be an insurance executive or a medical consultant who leaves administrative duties to someone with more of a business point of view.

Let us consider now the pro and con phases of being a medical director. This article being a negative sales presentation, the cons come first.

Most of you do not qualify. You are not practical enough. Your ideals and individualisms control you. You are dogmatic. With 100 clinical cases you may have consultation on five. With 100 insurance files there may be 50 interoffice conferences. Please do not take this as adverse criticism. I like your basic integrity more now than when I was a practicing physician. I see you objectively. In my book physicians and insurance agents do more for humanity than any other vocational group. Not forgetting the clergy.

In insurance you do not heal the sick. With many of you, perhaps most of you, that has been a driving impulse since teen age. It is admirable. Don't give it up unless, unaccountably



Prognostic Medicine—*"I ain't never had nothing wrong with me, no time, no how."*

perhaps, you find yourselves not adapted to clinical or research medicine.

You will have a boss in insurance, a boss, a senior executive to whom you are accountable. It is just as important for you to choose him as for him to choose you. Inquire carefully about him. Clashes of personality are far from unknown in corporations. Meet him personally and discuss your common points of view out of the office as well as in. If he is elderly and due for early retirement, make similar appraisal of the man who will succeed him. Interoffice relationship can make you or break you.

Now let us consider the pro factors if you become a medical director.

The job is just as idealistic as that of a practicing physician. You make it possible, through the agent, to give economic protection to the man who wishes to protect his wife and children if and when they become widow and orphans.

Meanwhile protection to your own wife and children is assured. You start at $8,000 to $10,000 a year and advance in salary according to merit. And remember this. No overhead. No equipment to buy. No automobile unless you want it for pleasure. No rent to pay. No telephone. No salary for an office assistant. No business debts. No bad accounts to write off.

A forty hour week gives you your evenings and weekends for leisure and for study. If you don't invest twenty hours for study and self-improvement you cheat yourself. You get two weeks' vacation with full pay. And no continued office expense. After a few years of service the two weeks increase to three, and then to four.

You attend conventions at company expense. Invariably these are at the best hotels and resorts in the country. You pay nothing out of your own pocket not even for meals deluxe with occasional cocktails between times. Ask some practicing physician or surgeon what it costs him to go to an A.M.A. convention in San Francisco or New Orleans or Atlantic City, not only in output of money but also in intake that he doesn't get when absent from his office.

Pension is yours when you retire. Even if you become a lazy mediocrity —a hazard of the job—your knowledge of the principles of insurability and the peculiarities and potentialities of your agents, ensures the tenure of your job, if you keep your nose clean.

Fringe benefits come to you. Sick time off with no decrease in income. Group insurance and accident and sickness coverage at wholesale, many companies sharing the cost with you.

Investment confreres are glad to advise you on building your personal estate, what securities to buy, what to avoid. (When I was a practitioner I bought some dillies. My investment advices were not dependable. Now they are.) The mortgage department will steer you if you buy or build a house. Their practical appraisals will offset the exuberant optimism of a real estate salesman. Lawyers in your company will confer with you on the taxes you pay, the will you should make, and any other legal problems that may arise. Your clinical associate pays money aplenty for these services and may lose unhappily if he doesn't obtain them.

It has been nice visiting with you. Insurance medicine is a delightful specialty for a minority of us. The same can be said of obstetrics, pediatrics and other classes. Most of you will continue into clinical practice in one domain or another. As indeed you should. Good luck to you all!

THE INSURANCE ATTORNEY

BY T. A. BRADSHAW

President of the Provident Mutual Life Insurance Company. A graduate, cum laude, *of the University of Colorado and Colorado Law School, Mr. Bradshaw is a member of the American Bar Association. He is a prominent civic leader in Philadelphia and has headed several charity drives there.*

THE GREATER PART of my business life has been spent as a member of the law department of a life insurance company. The experience has been a happy and satisfying one. Therefore, the reader should be warned that the author, in presenting this case, is a prejudiced witness.

To the uninitiated, the work of the life insurance company lawyer might seem a comparatively narrow specialty. Actually the problems confronting home office counsel are quite diversified. This is true because the life insurance business is complex, and it is the nature of the lawyer's work that he must, perforce, become familiar with all aspects of the business. Of course, the degree of specialization will vary with the size of the company and the consequent size of the legal staff (as would be true in the case of a law firm engaging in general practice). But it is undoubtedly true that the members of the legal staff are in a peculiarly good position to study and learn about the "how" and "why" of all phases of the business and thus to progress into important roles in the formulation of the company's general business policies and procedures.

Limitations of space will permit of only brief descriptions of a few aspects of law department work.

The typical life insurance company issues a wide variety of insurance contracts, including individual term, life, endowment and annuity contracts and, in many companies, accident and health coverages and group insurances of various kinds. New types of policies are frequently introduced to meet the new and changing needs of the public.

While procedures may vary between companies, it is usually the actuary who decides upon the general structure and content of the contract, after which its exact language is worked out through the cooperative efforts of the actuary and the lawyer.

These contracts must be drafted with meticulous care, so that both the company and the purchaser will be properly protected. In many of their details, the terms of the contracts are regulated by state laws. It is a well-known rule of law that if there is an ambiguity in the language of the contract, such ambiguity must be construed "against the company." Therefore, in order to protect against claims for coverage greater than intended and justified by the premium rate, a careful legal analysis must be given to the language of the contract. (As the student of insurance will appreciate, "protecting the company" against unfair claims really means protecting *all* the policyholders against unfair preferment of one policyholder.)

At the same time, the lawyer should keep constantly in mind the interests of the policyholder; complete fairness, clarity, common sense and an awareness of good public relations are necessary ingredients of this work. Obviously, to do the job effectively, the lawyer must have a good knowledge of the statutory law governing insurance contracts plus familiarity with the "case law" developed by the courts in construing them.

I suspect there are some who visualize the law department of a life insurance company as devoting the principal part of its time to resisting payment of insurance claims. Fortunately, this is far from correct.

In relation to the great number of claims incurred each year, the percentage involving any dispute is remarkably low. It is inevitable, however, that in a certain small percentage of claims the company, after investigation, will find it necessary to deny liability. Typical examples would be those involving fraud, or a dispute as to the actual existence of disability, or (rarely now, but not so rare in the 1930's) a death claim based upon an alleged "disappearance" of the insured person.

The actual time spent by an individual lawyer on disputed claims would largely depend on the size of the insurance company. In a very large company, despite the low percentage of disputes, these matters could consume the full time of one or more members of the legal staff. In a smaller company, it is unlikely that a great part of even one lawyer's time would normally be required. Of course, economic conditions have some effect on the volume of disputed claims. This is particularly noticeable in connection with disability claims, as evidenced by the comparatively high ratio of questionable claims during the 1930's.

The home office lawyer's role in these claim matters requires him to apply both his legal knowledge and his sense of business judgment and public relations. When presented with a possible disputed claim, he suggests or directs such further investigation of the facts as seems warranted; then he investigates the statutory and case law as it may apply to the facts; then—and this is important—he calls upon his common sense and his awareness of public relations to determine whether, as a practical matter, and despite the technical soundness of the company's legal position, the claim should be paid, compromised or litigated.

Life insurance companies conduct business in all parts of the country. Therefore, it is not usually feasible that the home office legal staff should undertake actually to conduct the trials

of its litigated cases. The home office lawyer selects, for this purpose, a lawyer practicing in the locality where the trial will take place. However, the home office lawyer will work closely with the trial lawyer, preparing preliminary memoranda of the facts and the case and statutory law, reviewing pleadings, and, where feasible, attending the actual trial.

The extent to which the home office legal staff participates in investment transactions will vary among companies. This is true both as to real estate and mortgages and investments in stocks and bonds.

With respect to real estate and mortgages, in some companies the legal staff participates actively in such matters as title examination, drafting of deeds, mortgages and other documents, and mortgage foreclosures. In other companies, these activities are handled by members of the investment department and local attorneys, the law department acting primarily in an advisory capacity.

As to investments in bonds and other securities, one of the most likely activities in which the home office legal staff might participate would be in connection with so-called "direct placement" loans. This is the type of loan which is placed, in its entirety, with one or a comparatively few life insurance companies, as distinguished from a loan represented by bonds or debentures sold to the public in general.

In some companies, the volume of "direct placements" might be sufficient to justify the employment of one or more home office attorneys who are specialists in drafting loan indentures and handling other legal details in the actual consummation of the loan. In others, the volume might be insufficient to justify this expense, and such matters would be referred to outside attorneys specially employed for the particular transaction.

Whichever method may be used for handling individual transactions, however, the legal staff must of necessity keep in close and active touch with the company's investment program. The statutes of the several states set forth detailed rules governing the types of investments that life insurance companies may buy. All investments must be tested in the light of these statutes. Frequently complex situations arise. To cite only one example, in many real estate investments, legality must be tested under the laws of two states, i.e., the state of the company's domicile and the state where the property is located.

Moreover, the investment field is a dynamic one; ingenious lending officers and borrowers are constantly devising new types of investments to meet changed conditions in the economy. These present new and interesting problems for the legal staff, whose duty it will be to determine the legality of the transaction and the form in which it must be developed in order to meet statutory requirements.

In many instances, the desirability of an investment, or the form in which it should be made, will depend upon a thorough analysis of the tax results flowing from the transaction—another job for the lawyer.

The lawyer's close contact with investments provides still another opportunity to transfer into a position outside the law department, if such be his natural bent and desire.

A life insurance company is subjected to extensive and detailed regulation by the state insurance departments and by the statutes of the states in which the company may do business.

Every insurance contract issued by the company must be submitted to the state insurance departments for approval. All phases of the business are subjected to periodic examination by the state insurance commissioners. In many companies the responsibility for maintaining relationships with the insurance departments, particularly with respect to the approval of contracts and compliance with regulatory rulings, is assigned to the law department.

Then too, the lawyers must keep a watchful eye on a great volume of legislative proposals in the various state legislatures, encouraging passage of those which are beneficial to the companies and their policyholders and opposing those that would be unduly restrictive or injurious.

Likewise, but perhaps to a lesser degree, the attention of the law department must be focused on a great variety of federal administrative rulings and congressional enactments, including those actually in effect and those under consideration for future enactment.

The experience gained and the acquaintances made through these governmental and legislative activities can be most pleasant and stimulating. The members of the legal staff are in the fortunate position of being the ones most likely to be delegated the responsibility of representing the company in this interesting and important work.

Yes, we have to wrestle with the distasteful subject of taxes in our business, too! Federal income taxes, state premium and privilege taxes, countless varieties of local licenses, social security taxes on employees' salaries and agents' commissions—these and many other tax problems demand the careful attention of the law department.

It is often said that the "lifeblood" of a life insurance company is its sales organization—the men and women who represent it throughout the country in selling its product to the public. I subscribe to that statement.

The home office lawyer has great opportunity to help the agents in their sales processes and to help both the agents and their clients in selection of insurance programs best suited to the clients' needs.

For example, life insurance is of tremendous importance in the planning of an individual's estate, in making provision for the payment of estate taxes, in providing for the future *assured* support of an individual's wife or other dependents. Likewise, it is an effective means of securing indebtedness, or protecting a business from forced liquidation at the death of a partner or principal stockholder. It is an efficient vehicle for providing future pension or dependents' benefits at the retirement or death of an employee.

The use of life insurance in these and many other situations demands an analysis and understanding of a great variety of tax rulings, rules of property law and other legal principles.

The lawyer, in giving assistance to agents, their clients and the clients' personal attorneys in planning the uses of life insurance, encounters legal problems that are interesting and wide in their scope.

* * *

As I have said, I am somewhat prejudiced in favor of the importance of the company lawyer and the opportunity he has, because of his contact with all phases of the business, to grow in his job and participate in management affairs.

But I would not want to oversell the case. Facetiously, it can be proved that the mail room is the most essential division of the company, because if the daily mail were not opened and distributed, then the company would soon be out of business.

All departments of the company, and all their functions, are important. In every department, whether it be accounting, actuarial, administrative, investment, sales, underwriting—or law—opportunity exists for the fellow who is intelligent, willing to serve his apprenticeship and capable of accepting responsibility, because he is part of a respected business of utmost importance to the economic and social welfare of the nation.

So all I can say is that I worked in a life insurance law department—and I liked it.

DIVISIONS OF

DISTRIBUTION AND SALES

BY PAUL F. CLARK

President of the John Hancock Mutual Life Insurance Company. A graduate in 1915 of the Wharton School, Mr. Clark has been a trustee of the American College of Life Underwriters since its founding. In 1945, he received the Russell Memorial Award for outstanding service to the institution of life insurance.

FIRST, a brief word concerning my sincere interest in this opportunity of discussing with you today's career opportunities connected with the distribution and sale of life insurance.

Just 41 years ago, as a college graduate, I stood on the threshold of decision concerning my own future business career and was fortunate in the good advice given me by two close friends. Solomon Huebner, now well known as the dean of the Chartered Life Underwriter movement in this country, and my uncle, Ernest J. Clark, then state general agent for the John Hancock in Maryland and the District of Columbia, were the men who helped me decide on a career in life insurance sales.

It is human to recall and discuss decisions which time and circumstance have proven to be right. Regardless of considerations which originally influenced my entering the life insurance business, from a strictly personal view I can now state the results have been more satisfying than could possibly have been anticipated.

If you came to me today as the son of one of my friends or neighbors, interested in discussing the career opportunities connected with the distribution and sale of life insurance, I would invite you to sit and think with me along these lines.

The life insurance business today is perhaps more complex than the average man or woman realizes. It has come a long way since the time when it was primarily considered to be "death" or "burial" insurance. Today it is one of the fastest growing and most dynamic industries in the United States. More than 57% of our population are now insured, and the average amount of insurance per policyholder has increased more than 1½ times in the last ten years. During this same period the total life insurance in force in this country has doubled, and during 1955 new ordinary sales reached over 30 billion. Personal accident and sickness sales and group life insurance sales are increasing year by year even more rapidly than other forms.

The assets of American life insurance companies have experienced a dramatic increase from $45 billion in 1945 to $85 billion in 1955. These funds have played a very important role in financing the tremendous increase in America's productive economy since World War II. Life insurance dollars always work twice. First they provide protection, for families, business interests, guaranteed educational funds, needed emergency dollars, and retirement income—then through investments by the life insurance companies they provide jobs for millions of people by financing old and new products and business enterprises.

The continued expansion of the economy can be financed only by savings or credit. The capital provided by life insurance companies is as essential to the continued peace-time growth of our nation as the sale of war bonds was during World War II.

When you realize the magnitude and importance of life insurance dollars, both to individuals and to our economy, you begin to appreciate the importance of a career having to do with life insurance distribution and sales. It is only through the selling of life insurance that these very important dollars can be brought into the company and then put to work in this worth-while cycle of double service.

Because distribution and sales are the keys to the entire process, the jobs connected with these functions demand the best in individual aptitude and skill. It is therefore not surprising that life insurance companies use the very latest and most up-to-date selection tests and procedures, to determine an individual's aptitude for this important work. Those who qualify are given an extensive training in the office and in the field, to make certain they are equipped with both the "know-how" and the "do-how." The initial formalized training usually covers a period of at least two years, but as is true with other professions—training and retraining continues indefinitely.

As might be expected, this job where so much emphasis is placed on selection and training offers a better than average compensation plus extra benefits in the form of group insurance and retirement benefits.

There are five major types of distribution and sales utilized by life insurance companies and a particular company may use any or all of them.

GENERAL AGENCY SYSTEM:

This, the oldest method of distribution and sales, is still widely used. Under this system the company contracts with independent general agents and offers them a franchise to develop a particular region or territory. The general agent is free to contract with sub-agents who assist in selling within his area, on whatever basis he may choose within the broad terms of his contract.

The general agent is compensated for the amount of business produced and premium collections made. He in turn compensates his sub-agents on a commission basis, although some sort of a training allowance in the form of a guarantee may be offered.

BRANCH OFFICE SYSTEM:

Though it came into being after the

general agency system, it is similar in many respects. Its main area of difference is that instead of franchising areas to independent contractors (general agents), companies set up branch offices in these areas, appoint managers, and in this manner develop the territory. Both the manager and the agents are directly affiliated with the company, the agent as an independent contractor and the manager as an employee. This may bring about a better control of activity but with a possible limitation of incentive drive due to the manager not operating independently.

DISTRICT AGENCY SYSTEM:

This was originally a method of distributing and selling life insurance strictly on a weekly or monthly premium basis. Because of changes in the market these men today are known as "combination agents," and they sell a substantial volume of *all* regular forms of life insurance. The system came about because of a need to develop the so-called "industrial" market among people who could best pay their premiums weekly. The district or debit agent is a company employee who not only sells but also renders service and collects premiums within his debit area. Because of this multiple responsibility, he is paid for his collections and service, and in addition he receives commissions on the new business sold. Primarily, the district or debit agent deals with clients in the average income bracket, and any debit agent will assure you that there is nothing more rewarding than the personal satisfaction he enjoys in providing insurance for individuals and families where it is most crucially needed.

GROUP INSURANCE REPRESENTATIVES:

In today's market, life insurance selling often requires a high degree of specialization. This is particularly true of group insurance and its related coverages. Companies find it expedient to provide group insurance representatives who are specialists in this field. These men assist agents and brokers in developing plans to fit particular group prospects, and then in selling the insurance. Because of the nature of their job and the demands made upon them, group representatives are salaried home office employees.

BROKERS:

Most companies are interested in general insurance agents or brokers to supplement their full-time agency force in selling life and other coverages. These brokers are primarily engaged in the sale of casualty and other general insurance lines. In a sense they take orders from their clients and they might be classed as truly "distributors" as far as the sale of life insurance is concerned. Their compensation is on a commission basis directly related to the volume of sales produced and they usually operate under either single case or continuing brokerage contracts with life companies. Many of these men derive a good percentage of their total compensation from these life sales.

In the military it takes a large number of trained experts to equip and assist the man on the front lines. This is also true in the distribution and sale of life insurance, as it requires many home office personnel to equip and assist the men and women who are on the sales firing line. These home office positions are also well paid, covering a great many areas of specialized skills and ability.

Our agents tell us they like the career job of life insurance selling because it offers these advantages:

No limitations as to market or availability of product.

No ceiling on income that can be earned.

Freedom of operation as an independent contractor without the problem of a large capital investment.

Personal prestige based on accomplishment and professional recognition.

A real challenge and satisfaction based on the service aspect and contribution to society.

SALES RESEARCH

IN A CHANGING MARKET

BY CHARLES J. ZIMMERMAN

President of the Connecticut Mutual Life Insurance Company. Since 1946, Mr. Zimmerman has been with the Life Insurance Agency Management Association, resigning early in 1956 to take the post at Connecticut Mutual. He is a graduate of Dartmouth College and presently on the Board of Trustees there.

SOME OF YOU will make life insurance your career. In doing so, you will join a growing group of men and women, now nearly one-half million strong, who have found their chosen work in company home offices, in sales agencies, and as agents.

All of you, however, are likely to have another kind of very personal contact with life insurance—perhaps as beneficiary of a contract—almost certainly as an owner!

Purchasing a life insurance policy, you will find, is not like buying a golf ball or a cake of soap. You will want to give the matter considerable thought. Chances are, you will seek counsel from a life insurance agent who has been thoroughly schooled in his subject and whose aim is to develop with you a financial program geared specifically to your needs and desires.

Quite likely, this agent will become your "life insurance man," serving your life insurance needs just as your family doctor safeguards your health. Should trouble occur where life insurance might help, your life insurance man is the one you will call on.

It was not always this way. Only a few decades ago life insurance agents generally were not as capable of serving the public as they are today. As a result, people did not always own as much life insurance as they do today.

What has made the difference?

A recent survey tells us that more people own life insurance than ever before—103 million. And the life insurance they own is in the neighborhood of $400 billion! Purchases of new life insurance this year are moving ahead at a rate of about 15% better than the record-high year of 1955; 60% over 1950; and 230% above sales totals of merely a short decade ago.

The answer to this growth lies in the discovery of new uses for life insurance, greater public appreciation of its value, changes in our economy, breakup of the family clan, the recent era of prosperity, increasing tax burdens, and many other reasons.

One of the important "other reasons" is the vast improvement life insurance companies have made in selling their product and in serving the needs of policy-owners. This improvement has been made possible, in part, as life insurance men have begun to apply principles of scientific research and study to their problems of marketing and distribution.

Until about the time of the first world war, life insurance selling methods were largely a matter of hunch and guesswork. If a company did develop a better method of selling than its competitors, the secret was jealously guarded. There was little or no cooperation among companies in regard to mutual problems; little or no exchange of information.

No one in those days seriously tried to find out what kind of men make good life insurance salesmen. No one did much about training men to succeed. Management technique was to hire a large number of agents in hopes that enough would pull through to build a sales force. Training of managers was unknown. Men were named managers usually because they were good salesmen.

These conditions hampered effective distribution of life insurance. Annual sales volumes were not high by today's standards. Buyers of insurance were likely to let their policies lapse.

Early leader in the move to develop more facts about life insurance selling and sales management was Winslow Russell, vice president of Phoenix Mutual Life in Hartford. Largely through his efforts, coupled with those of a general agent named Edward A. Woods, an Association of Life Agency Officers was formed in 1916.

These were revolutionary steps in themselves. But Russell felt they were not enough. He believed science and research could be used to help the sale of life insurance—just as they were already working for the actuarial, underwriting, and medical phases of the business.

Here was Russell's idea: why not persuade life insurance companies to create an organization to do cooperative research? The idea became a reality in Pittsburgh on January 2, 1922. Thirteen companies contributed $500 each to form the Life Insurance Sales Research Bureau.

As more companies joined the cooperative research movement from both the United States and Canada, bureau facilities and services expanded. Subsequently the bureau moved to New York City, then to Hartford. The staff began to publish pamphlets based on studies and compilations. Consultants visited member companies to tell of bureau services and to offer technical help in sales management. Before long a program of original research was under way.

In 1946 the bureau merged with the Association of Life Agency Officers to create the present Life Insurance Agency Management Association (LIAMA). The new organization retained the same major objective—to improve the efficiency of life insurance distribution through research and

study of the industry's sales problems.

Today an extensive program of scientific sales research is the backbone of this association's work.

It is important to note, also, that many companies individually conduct their own research operations.

What are the major problems involved in insurance sales research? Since life insurance is a business of people—with one person buying an intangible product from another person for the benefit of still another person—our sales research is chiefly research on people and their varying habits, characteristics, aptitudes and talents. Many of our problems involve trying to identify causes for individual differences that may exist between salesmen and between sales agencies. One of my colleagues has likened this to trying to develop a rubber yardstick to measure a rubber man in a rubber market.

But if sales research is seemingly this complicated, what tangible results may we expect?

The best our sales researchers can hope to do is to provide men in sales management with factual information to help them make sound business decisions. This means that the businessman who relies on information developed through this research is able to make his decisions more easily and with a better chance of being right than his opposite number who relies on hunch, guesswork and the experience solely of his own company.

Through the cooperative research program of Life Insurance Agency Management Association, we try to provide information that will increase the probability that management's decisions will be correct. These decisions may range all the way from basic policy (shall we attempt to have a force of salesmen who work full-time for the company?) through general but less basic decisions (what kind of financing plans shall we use for our salesmen?) to specific, day-to-day actions (shall we hire Jim Brown for the Smith Agency?).

Why state research goals in terms of improving odds? Because realism forces us to assume it will never be possible to recognize or control all factors that may affect the result of management decisions. Individual agents, agencies and companies will probably always have unique characteristics that will necessitate some variations from our general findings. In the absence of other bench marks, however, it is obvious that decisions based on these findings will, in the long run, be better than those based on none.

Now you may ask: How is research put to work to improve marketing efficiency? How does it help the company and the agent? How does it help policyowners and the public? Here are a few illustrations.

Marketing research, when applied to the task of producing a better, more efficient salesman, is like "trying to measure a rubber man with a rubber yardstick."

Research helps management select as agents men who have a better than average chance for success. One way is by use of the scientifically prepared "Aptitude Index," administered each year to more than 160,000 prospective agents. We know that use of this test definitely improves a manager's chance of making a correct decision on a prospective agent.

Research helps in the selection of managers of life insurance agencies and in the development of career agents. LIAMA last year introduced a "Career Analysis Procedure" which will increasingly provide help to companies in determining whether a particular agent is likely to be a good manager, or whether he should continue as a career agent.

Research helps in the training of agents. For example, with a company's cooperation, LIAMA introduces a new training procedure into some agencies and not into others. Results of the two groups are followed closely so that effectiveness of the new procedure may be determined.

Research helps to reveal the opinions and attitudes of agents, as well as of the insuring public. With information of this kind, management is able to see itself as others see it. Frequently company procedures will be changed on the basis of evidence turned up in an opinion and attitude study. In ascertaining how the agent feels about different phases of his job, LIAMA relates this feeling to the amount of life insurance he sells and to the length of time he remains in the business.

Research helps to pinpoint markets for life insurance. To help companies plan their sales strategy, sales researchers are continually exploring such questions as:

What are the characteristics of buyers of life insurance?

What relationship exists among (a) volume of life insurance sales, (b) number of policies sold, and (c) average size policy sold?

What are the current spending and saving habits of people?

What factors affect whether or not policies remain in force?

What is the potential for life insurance sales in different regions?

Research helps to reduce the cost of distribution. What does it actually cost to hire, train, supervise, house and maintain an agent? What does it cost to issue a policy? What do all the other steps in the sales process cost?

Research helps to keep salesmen and sales managers abreast of current trends in the life insurance business.

For example, nine continuing LIAMA surveys on different aspects of selling enable companies to match their own efforts against the entire business, or against companies of similar size and objectives. Perhaps the best known is the "Sales Survey," which each month reports on life insurance sales totals in the United States and Canada, with a breakdown of ordinary sales by states and provinces. From this survey, a company is able to see what share it is getting of the total market.

Research provides information on the practices of many companies. From studies of what companies are doing in many different aspects of sales management, individual companies may get new ideas and may check their own practices against those of competitors.

While all of this sales research is undertaken directly for and paid for by the companies, the ultimate beneficiary is the public. For as marketing procedures become more efficient, the cost of protection to the public reduces and more life insurance is made available to more people.

The application of scientific research to the life insurance business (and to all business) is still in an incipient stage. However, large numbers of highly trained research people are already employed by business and industry in various types of research capacities.

It is now generally recognized that the level of technical skill required for research of this kind is very high in terms of such basic matters as statistical method, experimental design, and application theory. Thus fewer and fewer employers are putting on research people at the baccalaureate level.

In the face of recent phenomenal gains in life insurance ownership, it is only natural to wonder whether people will continue to buy more life insurance and whether the private life insurance business will continue to grow and prosper. Can our sales research people tell us anything about the future? They can and do, and their predictions have an educated ring of authenticity.

We know that our market is changing all the time and will continue to change, but we recognize that these changes are evolutionary in character, not revolutionary. If life insurance remains flexible, adjusting to the changes that are bound to occur, we can look to continued great growth in ownership during the next decade.

Much has been said about the expansion of mass life insurance coverages through group insurance, as well as the threatened further expansion of various forms of legislated security. Will these developments severely cut into sales of individual policies? Our best evidence is that they will not—that the over-all market for personal insurance will expand more rapidly than either mass coverage or legislated security will grow.

To support this belief and to indicate further that the future of the private life insurance business was never brighter, here are this writer's predictions about the decade ahead:

1. Despite the large amount of life insurance in force today, the average family owns the equivalent of only slightly more than one annual income. An objective estimate is that this average should be closer to four or five times annual income. Here is a great potential for life insurance that will be reached.

2. A steady increase in productivity will bring about higher real income. More people will have greater financial resources to buy personal insurance.

3. A greater number and greater percentage of high school graduates will enter college. The cost of college education will be markedly greater. This will require a greater volume of educational insurance.

4. Life insurance will develop new markets and markets which are today

underdeveloped. This will be especially true of people who are presently in the lower economic and educational strata. There will also be a spectacular increase in the sale of accident and sickness insurance and in pension plans.

5. Life insurance on women will increase greatly. Today one-third of our labor force is made up of women. In the future an even greater percentage will be women, and their gain in real earnings will be even higher than that of males. More life insurance on more wives will be purchased.

6. Because of the greater supply and quality of present and new consumer goods, people will be inclined to spend more and save less. Greater job security in the future will further enhance this trend. Life insurance will thus become a more important part of the savings picture, since it is the only method by which men can spend more of their income today and still protect their families against loss of income tomorrow.

7. Home ownership will increase still further. Larger and longer term mortgages will require additional life insurance coverage.

8. The next decade should see a marked expansion in life insurance for business purposes.

9. An increasing number of people living to older ages will require additional insurance coverage.

10. More people will have a greater acceptance of life insurance. The tremendous increase in benefit payments, both in life and accident and sickness, will have the gradual effect of bringing about greater appreciation and understanding of the importance of personal insurance.

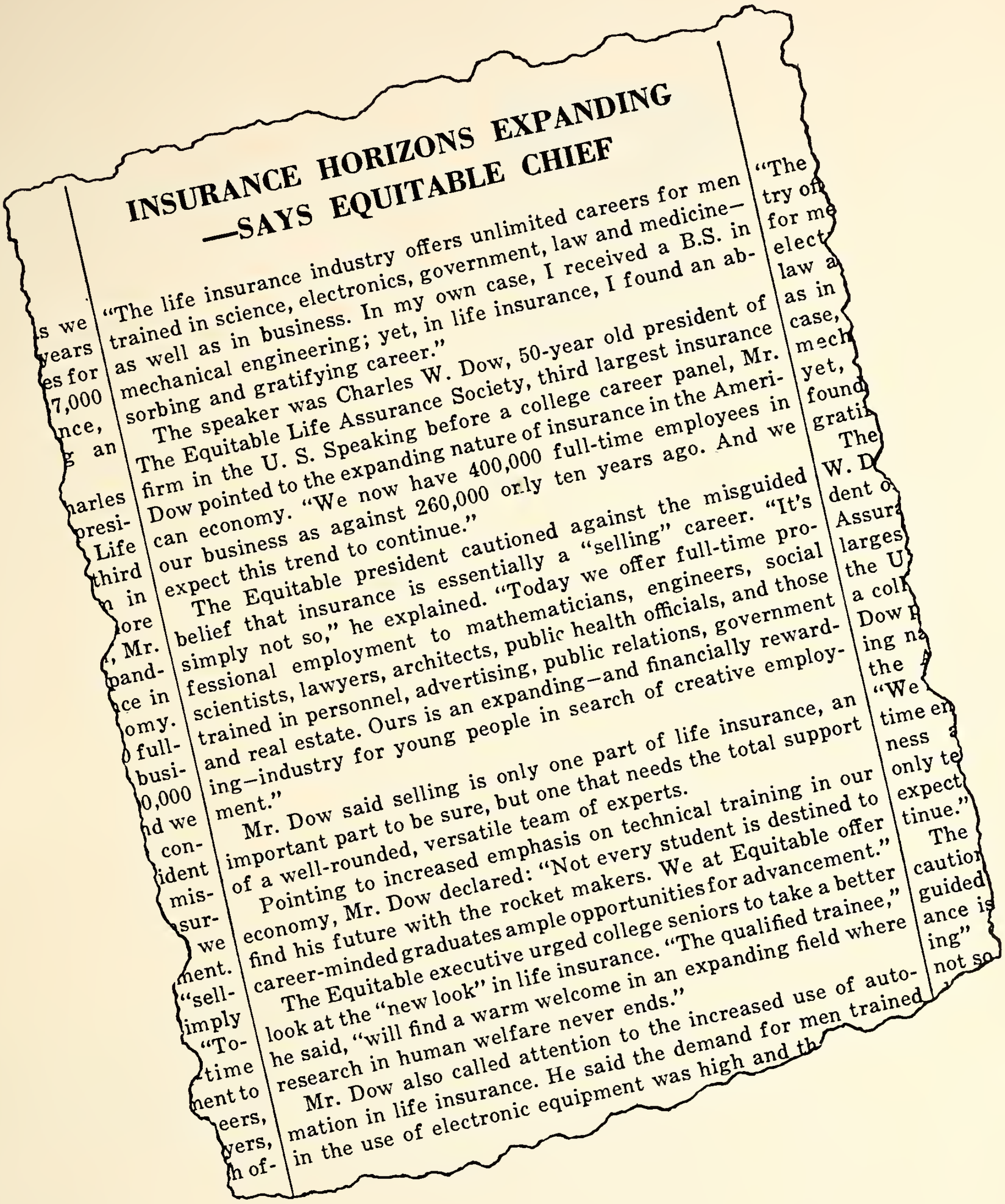
To respond to these opportunities of the future and to meet the changes that are bound to occur, life insurance management will need more and more *knowledge based on facts.* This indicates clearly that management will demand and pay for more sales research. Certainly this will be true of all business and industry, and it is inconceivable that life insurance management will not keep pace with the leadership of American business generally.

In this exciting picture of change, growth, and opportunity, college men and women will play leading roles. You will fill key positions within our business; you will be important owners of our product; you will be influential spokesmen for the continued sound growth of life insurance and of all business, in the best interests of the public.

For you, as for life insurance, it is wise to make no small plans during the decade ahead.

* * *

CAREERS UNLIMITED ___!



INSURANCE HORIZONS EXPANDING —SAYS EQUITABLE CHIEF

"The life insurance industry offers unlimited careers for men trained in science, electronics, government, law and medicine—as well as in business. In my own case, I received a B.S. in mechanical engineering; yet, in life insurance, I found an absorbing and gratifying career."

The speaker was Charles W. Dow, 50-year old president of The Equitable Life Assurance Society, third largest insurance firm in the U. S. Speaking before a college career panel, Mr. Dow pointed to the expanding nature of insurance in the American economy. "We now have 400,000 full-time employees in our business as against 260,000 only ten years ago. And we expect this trend to continue."

The Equitable president cautioned against the misguided belief that insurance is essentially a "selling" career. "It's simply not so," he explained. "Today we offer full-time professional employment to mathematicians, engineers, social scientists, lawyers, architects, public health officials, and those trained in personnel, advertising, public relations, government and real estate. Ours is an expanding—and financially rewarding—industry for young people in search of creative employment."

Mr. Dow said selling is only one part of life insurance, an important part to be sure, but one that needs the total support of a well-rounded, versatile team of experts.

Pointing to increased emphasis on technical training in our economy, Mr. Dow declared: "Not every student is destined to find his future with the rocket makers. We at Equitable offer career-minded graduates ample opportunities for advancement."

The Equitable executive urged college seniors to take a better look at the "new look" in life insurance. "The qualified trainee," he said, "will find a warm welcome in an expanding field where research in human welfare never ends."

Mr. Dow also called attention to the increased use of automation in life insurance. He said the demand for men trained in the use of electronic equipment was high and th

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Personnel Director

LIFE INSURANCE

INVESTMENTS

BY O. KELLEY ANDERSON

President of New England Mutual Life Insurance Company. Formerly president of Consolidated Investment Fund, Mr. Anderson became president of New England Life in 1951. A graduate of the University of Iowa and of Harvard Business School, he is presently a director of several large corporations.

A CAREER in life insurance investing offers a unique opportunity to play a direct role in the financing of both government and industry. Due to the limited number of young men entering the field in the thirties and early forties, the probability of rapid advancement is excellent.

The life insurance industry is playing an increasingly prominent position as a financial partner to American business. As the largest single source of long-term capital, life companies through their investment activities made $18.9 billion available to all segments of the economy last year.

The total assets of over 1000 legal reserve life insurance companies in the U. S. were $90 billion at the year end, more than double the 1945 figure. The present annual growth in new funds to be invested is at a rate in excess of $6 billion. In addition to the net inflow of $6 billion last year, the investment personnel of our life insurance companies had to reinvest an estimated additional $12¾ billion which came in through repayments, maturities and sales of investments and other sources. In other words, for every $3 invested, $2 represented reinvestment of funds. It is always of interest to individuals outside the industry to know that even during the depression of the 1930's most life insurance companies had a substantial net inflow of new funds plus additional funds from maturities, sales and other sources to be invested. Consequently, one of the basic fundamentals of life insurance investing is that, as a general rule, there will always be more money coming in than going out. This excess must be kept soundly invested.

The incentive to do a better job than the other fellow is just as great in life insurance investing as it is in any other job. Furthermore, this must be done in an investment environment which is constantly changing. Investments that were plentiful and good buys yesterday may no longer be available or desirable today. To use an extreme example, Canal bonds which once could be purchased in large quantities at attractive prices are no longer on the market nor would they have investment appeal if they were. The most interesting opportunities are often securities of new kinds of enterprises (the gas pipelines in the early 1950's), or situations where strong demand has increased the return to the investor.

The man on the street oftentimes has the idea that the life insurance companies are placed in a straitjacket of investment regulations and prohibitions. Although it is only natural, and in fact desirable, that the states regulate life insurance investment activities, most states provide more latitude than is generally recognized. For example, many life companies own nominal amounts of common stocks. In areas where there are defined limits within which the companies must stay, there is an added stimulus to do the very best job possible within these limits.

In seeking a job in life insurance investment, you have a choice of a large number of companies (there are almost 900 domestic companies) located all over the country. There is a tremendous spread in the size of the various companies, providing a wide choice of the size of "pond" you land in. However, if you prefer a larger company, many of them are located in one of the larger financial centers of the country; Greater New York, Hartford, Boston and Philadelphia in particular have concentrations of larger life insurance companies.

There is often a considerable diversity in the basic investment philosophy and policies of the various companies in regard to the types of investments, the departmental organization, and the degree to which investment personnel specialize in given types or groups of investments. These are points which can vitally affect the nature of your particular job. Each of them should be given careful consideration.

One of the most attractive features a life insurance investment career offers is the opportunity for the individual who is willing to work hard to move ahead rapidly. This is especially true at the present time, since there were almost no young men going into this or any phase of finance during the depressed period of the 1930's or the war period of the 1940's. As a result, there is a definite gap in age groups and a shortage of younger men who are prepared to move into openings which will be created by expansion and retirements over the next few years. Although the number of graduates hired from colleges and graduate business schools has stepped up markedly since the early 1950's, good advancement opportunities still exist.

The fact that you may have taken no courses in life insurance is no real detriment in seeking employment in the investment department. Most companies participate in the activities of the Life Office Management Association which offers some twenty courses in life insurance. There are also several correspondence courses available. Many companies also have discussion and orientation sessions which give investment personnel a better understanding of the role of investments in

life insurance. A basic knowledge of finance, economics and accounting is of far more immediate importance to the investment trainee, and a graduate business school education is an advantage in getting started.

Training in life company investment departments varies widely. There are almost as many training programs as there are individuals entering the field. This is true for a number of reasons. Usually there is only one new man entering the department at any one time, or perhaps two or three at the most. On the other hand, the departments are often not large enough to make it practical to have one person whose primary function is the training of new personnel. The men in the investment departments are cooperative and helpful but you will find exposure and experience to be the best teacher. After all, learning the investment business is a lot like catching cold. If you are exposed to it long enough, you get it. For the individual who feels the need, there are usually night courses in security analysis, real estate, and other pertinent subjects if you are in a large metropolitan district, or correspondence courses from many colleges and universities if night courses are not available. In summary, the individual is usually free to set his own pace and move ahead as rapidly as he is able.

Now let's look more specifically at the job you will most likely be doing. In any phase of life insurance investment you will find the work stimulating and broadening. You will be expected to develop both wide and intensive knowledge of the economy of the country, of given industries, properties and companies. You will find it a field where you cannot sit back; you must be constantly on the lookout for new developments and trends. The best real estate block in town last year may be losing its attraction this year. Today's action by the Federal Reserve may have a marked effect on next month's interest rate pattern.

The investment job in a life company is no longer entirely a desk and Moody's Manual job, particularly with the terrific post-war growth in direct placement financing in which a single financial institution or a small group of institutions purchase an entire new bond issue directly from the borrowing corporation. Direct personal contact with prospective borrowers has become the rule. In a sense, insurance companies have become a type of long-term banker doing their own investigation, negotiation and follow-up work. This direct contact with the management of the borrowing corporation will provide you with valuable facts and a feel for the situation which could not be obtained in any other way.

The recent long-term airline financing which has been worked out between various airline managements and insurance company investment personnel in which funds have been made available for the purchase of turbo-prop and jet aircraft over the next five years or so highlights the flexibility of life company investing. First of all, insurance companies are ready to sit down with corporate managements to try to work out a financing program for almost any reasonable purpose.

The ability of industry to obtain commitments from the life companies to provide long-term funds has promoted long-range industrial planning. It has encouraged companies to engage in modernization and expansion programs which simply could not have been undertaken without the assurance that funds would be available at a specified cost when needed. It is impossible to express in dollars and cents the far-reaching effect which this is having on the increased stability of the national economy and on the improved standard of living for the American people.

The cost of converting America's major airlines from propeller driven to jet type aircraft will amount to over a billion dollars. Approximately one quarter of this sum is being supplied by life insurance companies.

Specialization in certain types of securities, mortgages, real estate or by industry classifications is not generally taken to the extremes so often imagined. In fact, in most companies there are not enough people in the department to permit much specialization. The more common practice is to specialize by types of investments or groups of industries. Many companies encourage a certain amount of shifting around as a means of broadening the individual and of increasing flexibility within the department.

Investment departments need good administrators just as much as any other department or organization needs them. The larger the company, the greater the need. Don't shy away from the investment department of a life insurance company because there would be no outlet for your administrative ability. The same might be said for those interested in human relations and motivations. What is more interesting than an on-the-spot study of management?

Our salary scales have improved substantially in the past decade and are competitive. Various pension plans, fringe benefits and job security in the life companies are among the very best to be found anywhere.

It is always gratifying to see the satisfaction which life insurance investment personnel get from the vital role which their activities are playing in the American economy. It is a group which justifiably prides itself on its high ethical standards and the excellent reputation which it enjoys in the business and financial world.

Perhaps what appeals to our investment personnel as much as any other one thing is the business associations which they make in their day-to-day work. There is frequent contact on both a business and a social basis with commercial and investment bankers and business leaders from all types, kinds and sizes of corporations. Our people literally get to see and know not one but dozens of companies or properties. The job usually carries with it enough travel to be stimulating and broadening but not enough to interfere with family life. All these things together make a career in life insurance investing one which is deeply enjoyable, interesting and rewarding.

* * *

COMPANY

TRAINING PLANS

BY HAROLD J. CUMMINGS

President of the Minnesota Mutual Life Insurance Company. Mr. Cummings, a graduate of Quincy College, has long been interested in insurance education and is now a member of the board of the Huebner Foundation for Insurance Education, as well as holding other positions of public responsibility.

LET'S ASSUME that we are to talk about training methods only as applied to the life insurance business, and specifically to the training of a life insurance salesman. And it may help some to fix the place of training itself in the overall process of developing a life insurance field man. Training as we see it is just one phase of that job. The complete sales-man-building pattern calls for the full-time play of "four horsemen": selection, training, supervision, motivation. And the manager or general agent who would develop and maintain a team of life insurance salesmen will soon find that success hinges upon his keeping all four in the game all at *one* time, *all* of the time. It's widely conceded to be a good trick if you can do it.

It may be that all four need not be in the act all at one time and continuously with each individual. And perhaps selection may be a one or two shot function. Though one soon learns that there is such a thing as secondary and even tertiary selection. At least training, supervision and motivation must go on and on forever. Once in a blue moon a trainee may be selected who will prove able to supervise and motivate himself. Even for him, training will remain a continuous process if he is to keep abreast of our changing times.

In this brief discussion we will bypass selection, supervision and motivation. And it may help to think specifically about training as a job involving three separate, though related and overlapping fields. There is the toilsome task of imparting adequate knowledge. There is the challenging chore of developing selling skills. Finally, and perhaps most important, there is the definite duty of cultivating adequate work habits; and thereon hangs a tale.

Imparting the necessary technical knowledge is relatively an easy part of the job, if for no other reason than that so many excellent sources are available for a good part or all of the undertaking. But again it may help to see clearly that the knowledge needed reaches into three separate spheres. The trainee must acquire a solid working acquaintance with the fundamentals of salesmanship. He must have a fairly comprehensive knowledge of the general principles and practices of life insurance. And finally he must become familiar in detail with his company's policy contracts, their peculiar benefits, and all pertinent practices with respect to the services offered.

With reference to the first two—knowledge of salesmanship and knowledge of life insurance principles the problem is largely one of selection from the variety of sources available; and from them, laying out a continuing course of study of specific subjects, and then following through on it's completion. Surely there is no lack of material delineating salesmanship and the basic principles of life insurance.[1]

For any one company or agency, then, the core of the training problem, insofar as it concerns imparting knowledge, can soon narrow itself down largely to the creation and development of a training pattern for informing the trainee thoroughly with respect to his own company's services and practices. Quite incidentally, if the trainer needs help in shaping up his own job, the Life Insurance Agency Management Association offers a library of materials: "The Trainers' Manual," "Training for Managers," "Seven Company Training Programs for Agents," etc.

Which leaves us, of course, with the other two facets of the job: development of at least the minimum selling skills required for the trainee to succeed in marketing his Company's wares; and the cultivation of adequate work habits.

At this point we come to a fork in the road. The trainee can fairly easily be supplied with the information and equipment needed for him to become fully familiar with all aspects of his company's services. Whereupon he could, and used to be left to develop his own method of finding, approaching, conveying his knowledge to and selling his prospects. Time was when that was considered the one and only way to get into life insurance selling. Actual use of memorized, organized sales methods in the field was unthinkable. Perhaps National Cash Register salesmen could sell machines with a "canned sales talk." But that was quite silly as applied to the life insurance salesman.

Just 25 years ago this year—it was in 1931—we initiated an intensive effort to blaze a trail that might shorten or eliminate for the trainee that slow road to a practical work pattern. We had long observed that, no matter how much top life insurance salesmen might ridicule memorized sales talks, even the best of them did in fact, over a period of time and through trial and error, inevitably—very often unconsciously—develop canned talks of their own. But that method of muddling one's way into our business took a lot of time. It involved a high rate of trainee mortality. And certainly it did not enhance public opinion of the life insurance man, especially the novice, or of the institution which sent him

out to stumble around.

So for some years prior to 1931, it was slowly dawning upon us that—with respect to any one of the many human needs that life insurance can satisfy—retirement of mortgage debt, provision for monthly income for one's widow, education of children, provision for one's own retirement, and so on—there just was a limited number of essential facts that could reasonably be stated about a particular life insurance contract. There surely was such a thing as a best order in which to state the essential facts. And one could devise a better planned and more effective, if not the very best, way of presenting the facts. We did not say just a way to *tell* a prospect about them. We needed to know the best way to convey them clearly, using eyes as well as ears. And by 1931 we had developed one such sales picture, presenting life insurance as an answer to the four-sided hazard that every man faces simply because he is alive: occasional need of ready money for emergency or for opportunity, possible loss of earning capacity, and the certainty of old age, and the possibility that death might intervene earlier.

That "canned talk" has been in continuous use since 1931. It has sold a very large proportion of our business. It has been refined and refined of course. As applied to life insurance, we now think of it as "the sweetest story ever told." And we have since developed comparable presentations for other insurance needs, e.g., an organized method of presenting life insurance as a means of leaving a home free from debt, or as a method of making 40 cents do for retirement what it would take a dollar to do any other way, or as a way of preserving the sole proprietor's business for his heirs, and so on.

Over a period of 25 years we have become completely convinced that life insurance as a means of meeting specific human needs can best be presented in an organized, memorized way. And with such methods a trainee can earn as he learns; he need not struggle through the old-time muddling procedures; he can make a surprisingly splendid impression on his very first prospect; and he puts the knowledge that he gathers to work almost as soon as he gets it. Finally and most important, with such an organized pattern, sales skills in presenting the facts can be developed in the trainee at the same time that he is imbibing the needed knowledge of company services and practices. These two jobs can be made into one.

Such an Organized sales pattern may—especially in its early stages of development—consist of a list of steps to be taken with a well-ordered arrangement of the facts to be presented. It may finally develop into a self-contained, complete statement of the single service offered—a sales talk to be memorized and used literally word for word.

We spoke of using eyes as well as ears to get the idea across. So such an organized presentation involves tools. We call the tool that helps to convince through the eyes a "visualizer," and we have several of them. The tool that supplies the facts for various ages and plans we call a "demonstrator." The demonstrator for our basic presentation for instance makes it possible for the newest trainee to tell the "sweetest life insurance story" ever told, using the same words and pictures—though different figures—to describe in detail any one of 16 different policy contracts. Even as the salesman, new or old, talks, he can read and quote about 50 figures for any one age and for each of 15 insurance plans to illustrate just what will happen under a particular plan should the prospective

buyer need money, lose his health, grow old or die. Reading and quoting the figures as he talks, the newest trainee will literally have given each potential buyer more detailed information about the particular policy illustrated than a Chartered Life Underwriter could prepare in his office if he worked at it all day long.

With such equipment a trainee and his trainer can predict with surprising accuracy what will result from a given amount of "foot and mouth" work. At least the trainee can know what his results *should* be. If then results are not as predicted, he can be helped to locate his trouble. Field observation by the trainer while the trainee follows a prescribed pattern will usually make the particular difficulty quite apparent.

Back in 1931, when we developed our first organized training pattern, new men closed an average of one sale in every seven new prospects to whom the presentation was made. As the plan was refined over the years, this closing ratio was progressively improved until today a seasoned trainee can be quite sure of one sale in five presentations. Good men will average one sale in each three presentations to new prospects.

Similarly earnings can be predicted, the average commission per sale being surprisingly uniform where a uniform selling pattern is followed. Incidentally, our average commissions per sale have increased about a fifth in the last five years.

It will be obvious that as the seasoned trainee continues his general study of salesmanship and of life insurance, he may well develop a final selling pattern all his own. He may ultimately go into some specialized field, such as programming, business insurance, corporate pension plans, etc. But as a beginner, he has a way to move rapidly into almost immediate production.

Let's retrace our steps for a moment. At the beginning it was stated that a training program involves three things—the imparting of knowledge, the development of selling skills and the cultivation of work habits. Each is essential to the program. We come now to a phase of the job on which too much emphasis could not be put—the imperative matter of establishing sound work habits. The most comprehensive knowledge of life insurance and of a company's peculiar Services on one hand, and Selling Skills of finest quality on the other mean nothing, unless and until they are put vigorously and consistently to work. So the training pattern must also provide a way for the trainee to develop prospects for each sales presentation he will use. Then it must give him the standards by which he can determine in advance how many such prospects he must have and see day by day and week after week to earn the income needed to keep him in the business, or to satisfy his ambitions.

Here organized procedures and memorized presentations may prove their greatest value. Only when you know in detail precisely what a "prospect" is and exactly what a "sales presentation" means, and on the average what income should result from a specific, clearly-defined activity, only then can you intelligently set up a day's, a week's, a month's and a year's work in terms of "hoof and mouth" activity. And without such daily, weekly, monthly, yearly measures, we go back to the old, disheartening and senseless process of muddling through. Self discipline in this matter is one thing that the trainee must apply to himself.

But with organized methods of conducting specific activities with which to measure results—and indirectly but almost infallibly to measure actual activity too—the trainee can be given the urge that comes from being constantly aware that if he skips one of the bases, the umpire will almost surely call him out. And the best of us need that still voice now and then to keep us going squarely down the middle of the road. Organized selling procedures as an integral part of a training program provide a built-in work-habit cultivator that supplies the basis for reducing sound work habits to routine. The trainee must be brought to realize that he is never really working unless he is in a prospect's presence or on the way to one. Work habits will in the last analysis determine the success or failure of any training program.

This implies of course that the trainer will help the trainee set up his own individual schedule for doing an honest day's work. In each day's routine there will be included a study hour, a minimum number of foot-hours on the street, the making of a minimum number of new calls and of organized presentations, the keeping of adequate records, with periodic analysis of results, and so on.

In a word, if the training program results in the trainee's acquiring the needed knowledge—three ways—and if it develops sufficient selling skills, and if it induces self-discipline resulting in good work habits, the training program should succeed. If we just didn't have to deal with human beings, the job would be a cinch. But then it would not be a challenge. It would not pay off either in money or in human satisfactions. And it wouldn't be any fun either.

We come now to the key to the lock, the catalyst in the program, or whatever you may like to call it. A training program based on organized sales presentations is foredoomed to failure if it assumes that the trainer will do his coaching in the office. The training pattern must include proving to the trainee that the overall program can in fact be followed out in its entirety and from day to day. Only demonstration on the street in front of the same kind of prospect that the trainee will later see alone can get that job done. Showing the trainee from a swivel chair how the thing should work, how and when to use his visualizer and demonstrator, etc., is one thing. Actually using these tools over and over in front of prospect till the observing trainee itches to take over himself is quite another matter. Unless the trainer is willing to pay the price in such on-the-ground, man to man coaching, in all probability an organized training pattern should not be attempted.

Laying out and testing an organized training pattern involves expenditure of real money. And remote control in its application is not likely to make the investment pay. Here is where many an organized training pattern based on memorized presentations may break down. The pattern may be superb. But the trainee must see it work and be shown on the job that *he can do it.*

Let's go back. There are four essential elements in any training program: selection, training, supervision, motivation. Of course unless we select a trainee with a high potential or at least a fairly good one, all our efforts, whatever the pattern, will likely be wasted. The old adage about "making a silk purse out of a sow's ear" is certainly true here. And given good selection we must also remember that however adequate the training program, the trainee will have to be continuously supervised and vigorously motivated. So the trainer has a man-killing task, replete with deep human satisfactions when, with an individual trainee, he succeeds in getting the job done.

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(1) Research and Review—"Introduction to Life Underwriting," "Career Course," "Business Insurance and Tax Course," "Diamond Life Bulletins." LUTC Classes. Study for the CLU Degree. Campus courses at Purdue, and Southern Methodist. And other such sources of information too numerous to mention.

CLU—SYMBOL OF PROFESSIONAL "MONEY DOCTORS"

BY DAVIS W. GREGG

President of the American College of Life Underwriters. Dr. Gregg has a BBA degree from the University of Texas and MBA and PhD degrees in economics from the University of Pennsylvania. He has edited several college insurance textbooks, and has been a professor of insurance at Ohio State University and the Graduate School of Business at Stanford.

JESSE JONES, the late great Texas financier, was dubbed "America's Money Doctor" in the 1930's. He gained this colorful title by successfully and soundly lending hundreds of millions of government dollars to stricken business men during the Depression.

Many of today's college men have the opportunity to become "money doctors" in another sense—and spend a satisfying and profitable lifetime ministering to the financial health of individuals, families and businesses. To those who qualify, a career as a professional life underwriter offers advantages matched by few other callings. For those who "walk the extra mile" and earn the professional designation of Chartered Life Underwriter (CLU), the chance of financial and vocational success is greatly magnified.

"Don Moore," BS, '52, made up his mind as a sophomore that he wanted to make a career of life insurance. He took several insurance courses in his junior and senior years and during the summer before he graduated he worked in a life insurance agency to learn something about the business. He started his full-time life underwriting career on June 16, 1952.

In June 1953, Don took two of the five CLU examinations, flunked one and passed one. In 1954 he sat for two exams and passed both. In 1955 he passed the last two exams and received his diploma at the National Conferment in August.

Don had little trouble meeting the business experience requirements for the award of the Chartered Life Underwriter designation. He had gotten a fine start in his first year, earning nearly $5,000 in initial commissions plus substantial deferred commissions. In his next year he upped his cash income to nearly $8,500 and, in 1955, he reached the magical figure of $1,000,000 production and earned a cash income of $15,500. All the while his production was increasing, Don was studying CLU courses and learning better his job of "money doctor."

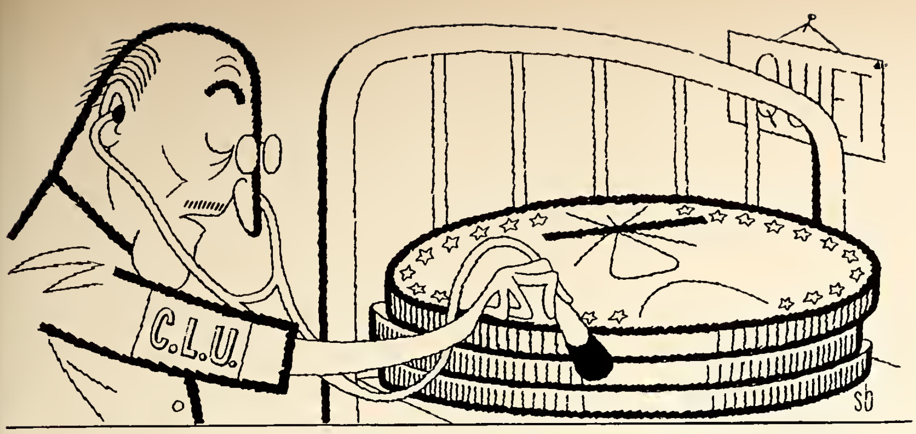
No one familiar with Don's success story would believe that he started his life insurance career with a substantial handicap. You see, his girl's father had not liked the idea of his son-in-law being a life insurance salesman. He had discouraged Don by talking, not too subtly, about "door-bell ringing" and "peddling." Don persisted in his intentions not only to marry the girl but also prove his father-in-law wrong about his choice of career. In three years he won the girl and the respect of his "in-laws."

Don knew what he wanted in a job. He particularly wanted the opportunity for an "outside" job which would not keep him chained to a desk for forty hours a week. He wanted to meet and talk with people. He wanted to feel that what he was doing was a service to those he came in contact with and to humanity as a whole—and he wanted the prestige associated with work of service. He wanted an opportunity to set his own pace. He wanted to be able to play golf on a weekday afternoon if he chose and he wanted to hunt and fish for a few days when he chose. Most of all, Don wanted an opportunity to make money at a rate which he himself would set. Don sincerely believed that some form of selling activity was his *forte*, and he was convinced that professional life underwriting met all his requirements of an ideal job.

In three short years of hard work and tremendous results, Don learned what it meant to be a financial counselor—a "money doctor." He got a great kick out of helping young business men, young lawyers and young doctors begin to make sense out of their personal financial planning. He helped them see their needs for a life insurance estate and an investment estate. Young as he was he had the understanding of his job that bred confidence of his clients in his recommendations.

Don didn't begin to mature as a life underwriter (and, in a sense, as a man) until he had his first death claim—unexpected, sudden and shocking. A young intern with two days off from his hospital took his wife and 2-year old son to the seashore. The young doctor drowned. Don sat with the doctor's widow and her mother and helped them plan the payments of debts and the flow of income from the modest amount of life insurance he had been able to purchase. Shortly after, Don, now the father of a young daughter, saw to it that his own insurance program was reviewed and increased.

Don also learned after a couple of years that life underwriting had an entirely new dimension. He began to learn something of a great potential of sales and service as a member of a team of business financial counselors. Through Don's initiative, the father of a fraternity brother working with Don, his lawyer and his CPA set up an orderly plan to dispose of a substantial business interest upon his death. The case benefitted Don's pocketbook through commissions he realized on the life insurance used in the plan. Even more important, Don earned the respect of everyone involved in the case and, as a result, has become the beneficiary of a growing list of referred business prospects. Just over three years in the business and Don has a



The CLU, a professional money doctor, nurtures and protects his client's estate.

reputation as a competent "business money doctor!"

Yes, had Don's father-in-law known at the outset some of the facts about career life underwriters, he would have been proud to see him choose that vocation. Had he known for example:

> . . . . that 90 per cent of all the 6,000 Chartered Life Underwriters are college men.
>
> . . . . that to earn the right to use "CLU" an underwriter must pass a series of stiff college-level written examinations on law, estates and trusts, taxation, economics, personal and business finance as well as social, property, health and life insurance.
>
> . . . . that 19 out of 20 Chartered Life Underwriters make a lifetime career of life insurance.
>
> . . . . that Chartered Life Underwriters rank above most professional groups in earnings, with a median annual income in 1955 of about \$17,000.
>
> . . . . that CLU's are community leaders in the finest sense of that term and have earned as a group and individually the respect of their fellow citizens.
>
> . . . . that every CLU subscribes to the following golden rule of business conduct: "I shall in the light of all the circumstances surrounding my client, which I shall make every conscientious effort to ascertain and to understand, give him that service which, had I been in the same circumstances, I would have applied to myself."

A new profession for college men is growing up. Our friend, Don, only a recent college graduate, is already tasting the fruits, material and otherwise, of serving as a personal, family and business financial counselor. He is a professional "money doctor" for life.

For the young man with ambition, imagination, and the will to serve, life underwriting personifies "opportunity unlimited." Dr. S. S. ("Sunny Sol") Huebner, internationally known professor emeritus of the Wharton School of Finance and Commerce, said it this way 20 years ago:

> "Universities should be anxious to see their graduates placed in callings which cover a vital social need, which afford ample opportunity for creative endeavor, which are not likely to be displaced by some other competitor, and which give promise of a decent compensation commensurate with effort. Life underwriting as a career meets all of these conditions."

What greater promise could any red-blooded, far-sighted college senior expect in his professional life?

PUBLIC RELATIONS

BY EDWIN W. CRAIG

Chairman of the Board of the National Life & Accident Insurance Company. Mr. Craig has been with National Life & Accident since 1913, and has filled every field position and nearly every home office position in the firm since that time. He is a graduate of Vanderbilt University

LIFE INSURANCE is in the vanguard of the organized public relations efforts of American business and industry. An effective job of developing good public relationships is under way in the business today, both at the institutional level and the individual company level—and even throughout the ranks of field men and technical experts, who have their special interests and special organizations to watch over those interests.

It was a good 20 years ago that a representative group of far-seeing life insurance executives decided to explore the advisability of moving into public relations on the institutional level. There was little organized public relations work under way in those days. There were as yet no public relations associations, and few businesses had full-fledged departments functioning in this field. And yet there was an apparent need of some direction in this area, as business generally had just taken a drubbing in public opinion from the disastrous effects of the 1929 depression.

Rightly or wrongly, business had been given a sizable share of the blame for the economic collapse of those early 1930's. Furthermore, business was being held responsible in public opinion for much more of the economic and social operations of the community than business had previously regarded as its province. It was becoming quite widely recognized that, if business was to recover public good will and reassume its position of leadership in the whole range of community affairs, it must make good on this new form of responsibility for good business citizenship, and must make an organized effort to explain itself and keep current in the public mind. Also it was going to have to do more of the things that could be clearly recognized as in public interest and be certain that less and less was done in the category that might be viewed as not in public interest.

Life insurance, of course, as a part of the business world, came in for a share of this critical viewpoint. In fact, life insurance came in for a considerable amount of criticism in those days for the primary reason that it was a technical business not widely understood by the man in the street.

Fortunately, life insurance had come through the dark financial days of the 1930's with an enviable record of stability and integrity, so that it was an excellent base upon which to build. But some organized building was needed.

It was in this atmosphere, and to meet a growing need for better service and performance in the public interest, that the Institute of Life Insurance was formed in 1939, one of the earliest institutional efforts in the field of public relations.

The Institute's objective was to tell the story of life insurance to the public, so that, shorn of technicalities, its principles and processes could be understood; and to interpret public opinion and public needs to the business, so more of those things could be done that the public wanted done.

For seventeen years, this story of life insurance, a continuing progress report on this great institution of family financial protection, has been carried to the public through every conceivable medium of communication. And this has been an effective story.

The net result: every survey of consumer opinion made in recent years has shown life insurance at or near the top in public appreciation and understanding. So effective has been this demonstration of public relations at work that many other businesses have come to the Institute to seek a pattern for similar institutional efforts.

At the Institute there is a staff of nearly 100 people devoting their entire time to setting this pattern for good public relations for the life insurance business. Recognizing that the public is not one great mass of people, but a composite of many publics, each with special interests, the Institute's efforts have been channeled to these individual publics, as well as to the mass public.

One of the primary understandings at the institute from the outset was that public relations is chiefly a matter of progress on Main Street. The pattern may be set for the business at the institutional level, and a central source of information established for the business, but the real building of public relations will always stem from the words and actions of those in the individual companies and in the agency offices throughout the country. Performance makes up 90 percent of all public relations, and performance is the responsibility and problem of the individual company and individual worker in the business.

Hence a vital part of the forward public relations job of the life insurance business, even the activities at the Institute, has been to stimulate the companies and the associations and the groups of individuals in the business to become public relations minded, and organize their own thinking and activities along these lines.

As a result, most life insurance companies today have public relations directors, endeavoring to tie their efforts in with the national program and build up public relations for the business and every one in it at the company level. A growing tendency among

the companies is to establish these public relations men at the management level. Many of them are company officers and, even where they are not officers, there is a tendency to include them in top management conferences.

It has been particularly fortunate that the public relations of the business has been as well organized as it is, for it has given the company operations the balanced approach, and not some weighted approach. That is, all too often, companies entering public relations consider one specialized phase of the work, such as publicity or advertising or correspondence or company practices, and make that specialty the main substance of the overall program. The life insurance approach, however, has been to view this activity as a balanced program of relationships with the public, taking into account every area of specialized effort—advertising, publicity, planning, human relations, community relations —even including the all-important area of inside public relations."

As a result, we find that companies with well-organized public relations programs have the director of the activity sitting in on all important planning sessions within the company, whether it be the matter of policy contracts, forms going to the public, selling methods, investment policies, actual advertising or publicity or any other detail in the entire range of daily work. It is well recognized that every point of public contact is the nesting place for public relations of some sort —if the contact be good, the ensuing relations will be good, and if the contact be less fortunate, the contribution to public relations will be less happy.

Nor have the public relations activities been confined to the institutional program and the company action. Throughout the ranks of the business, there has grown up a considerable public relations consciousness, with the result that most of the associations are operating mindful of this important aspect.

The agents, who in the final analysis represent one of the most vital points of public contact, almost the only one for many people, are more and more thinking of the things which make for good public relations, and in their national association they have a director of public relations constantly at work on this problem.

Likewise, we find the actuaries of the business ever-mindful of public opinion, and calling upon the public relations arm of the business for aid in making their inter-company reports and handling their meetings. We find the investment experts, the legal minds, the statistical and accounting people, the head office underwriters, the medical men in the business—practically every specialized effort is today taking action and voicing opinions with a mind to what is best in the public interest, and what will contribute most to shaping ever better public relations. The public relations man is truly a part of the management team.

All of this points to good and increasing opportunities for public relations men and women in the life insurance business. The young man coming out of college today, with the ambition of a career in public relations, can very likely find opportunity at either the company or the institutional level. Or if he is not quite convinced of a whole-time career in public relations, but is seeking a specialized technical career where public relations is thoroughly recognized and at work, here again he can look with interest to the life insurance business. For life insurance today is in the forefront of the organized public relations efforts of American business and industry.

Being one of the newer developments in company organizational structures, the opportunities are especially bright. More and more companies are stepping into specialized public relations work; more and more of them are moving their public relations men up to official status; more and more of the public relations programs are expanding to permit of increased personnel devoting their time to this phase of the business.

There is one thing that we in the life insurance business have discovered as pioneers in public relations work: that is the timeless nature of the work.

Here is an activity that will never cease. Its future is only up to a still higher plane. Public relations is something that is never completed. It is not a job that can be wrapped up and stored away, marked "finished." The job is never finished. What we have in the way of good public relations today stems from what was done yesterday by every one up and down the line in the entire business. And what we do and say today is building the public relations of tomorrow. But we can never let down in our efforts; rather we must maintain and accelerate them.

It is for these reasons that I think we can assure the young career-seeking public relations man that life insurance will be a good business with which to become associated. Life insurance is a growing business, and will continue to grow; public relations is a continuing problem, and one that will probably gain and not diminish in importance. The public relations man of ten years hence will hold an important place and perform a vital role in the life insurance business.

* * *

THE CHALLENGE

OF SUCCESSFUL SELLING

BY JOHN P. COSTELLO

An agent for the Southwestern Life Insurance Company, Mr. Costello started in the home office more than thirty-five years ago and became an assistant cashier before entering the field. Mr. Costello is one of the most successful life insurance agents in the United States, having produced well in excess of one million dollars worth of life insurance for 12 consecutive years.

In principle everyone is a salesman, whether he makes his living in the world of business or in a profession. He may sell his skill or his knowledge, his services or his personality, his idea or his faith—something that involves a product, tangible or intangible.

Selling experience, I think, is very beneficial to everyone whether he intends to make a career of it or not. Having had some successful selling experience, I am of the opinion that such experience would help a person to become a better doctor, lawyer, minister, educator or writer, since selling is the strategy of handling people.

From it you acquire a knowledge of human nature, your own included. Even while you piece together the viewpoints and prejudices of all sorts of people, you can be learning your own weaknesses and methods of eradicating them, finding out your faults and toning them down, and, last but not least, developing the best that is in you.

One of the best brief summaries of life insurance was written by the late Darwin P. Kingsley, president of the New York Life Insurance Company, in his book entitled, *Life Insurance is Light.* Here is his definition:

> "Life Insurance is a great social compact which merges the individual into the mass and places behind the frailty of Man, standing alone, the immeasurable strength of Men, standing together."

We have in the beginning, then, a business that directly serves and contributes to the social and economic well-being of civilized man. But to make it function properly, to bring its benefits to the greatest possible number of individuals, requires a force of trained salesmen dedicated to the cause of distributing its product in its various forms.

We in the business are in agreement that the salesman must like and understand people; that he must be familiar with his product and know how to adapt its various forms to best serve the needs of the buyer; he must be alert to the continuing changes in his market and new possible uses for his product; and he must be possessed of contagious enthusiasm and a sincere desire to bring the benefits of life insurance to the public. It goes without saying that he will at all times conduct himself in a manner above reproach.

The truly successful life insurance man adds another ingredient—the professional concept. I am not concerned with whether life insurance as we know it is a profession, quasi-profession or business venture, but I am convinced that to be a success in marketing its product a salesman must put service above self.

The financial rewards for a life underwriter are in direct relation to his efforts, knowledge and ability, as compensation for the business he puts on the books is based on a first-year commission on the new policy and a series of renewal or service commissions on premiums paid in later years by his policyowners. It is the agent's productiveness, therefore, which determines his income, and the lack of a ceiling on his earnings makes it possible for him to rank with top business executives and professional men in compensation received.

It has often been said that life insurance selling is the "best paid hard work" a man can undertake. The hardest part of that "hard work" is self-discipline, which calls for rigid adherence to a plan of time-control. That is the inevitable price of being "your own boss" with no time-clock to punch.

New developments most often originate with the man in the field, his is the opportunity to experience the thrill of an inventor and the challenge of an adventurer. With consistent cooperation from his company the life underwriter can justly feel that his work contributes to the strengthening of the American Way of Life.

It is no wonder, then, that successful life insurance men are enthusiastic, for they have the key by which the thoughtful breadwinner attains a degree of immortality by guaranteeing the financial security of his family beyond his own lifetime. To the innate desires of man, life insurance has an almost irresistible appeal. Pre-historic man had three major instincts: (1) preservation of self and family (from beasts and marauding cave men); (2) acquisition (have an extra kill hanging in the back of the cave); and (3) fear of the unknown. These three basic instincts of man, only slightly modified after centuries of civilization, are all satisfied in men today by life insurance.

Were it not for the peculiar twists of human nature, the wonder would lie in the solemn fact that this service and these benefits have to be sold—indeed, so rare is the voluntary purchaser that life insurance companies look askance upon them, having learned from experience that such applicants generally come to light only after they become poor insurance risks.

The life insurance salesman, therefore, often finds that he needs to exercise his persuasive ability on the indifferent or biased prospects, and this has tended to develop traits of tact

and diplomacy. Selling experience also develops imagination because a successful salesman must be able to picture himself in the prospect's position.

There are well-defined principles and fundamental laws in the science of selling and the closer the salesman sticks to these rules that are based on years of experience and multiplied by thousands of examples the easier will be his job of convincing others. Steps in this process consist of gaining attention, developing interest, creating desire and getting action. Every beginning salesman is thoroughly drilled in these and other essentials in company indoctrination and training schools, in industry-sponsored study courses and sales seminars, and in a wealth of sales literature available from many sources. The willing and constant sharing of ideas with fellow underwriters distinguishes life insurance salesmen from tradesmen in other fields, where plans or methods or discoveries are copyrighted or patented for the sole benefit of the originator. Instead, we freely pass on our ideas for the purpose of spreading life insurance protection—another indication of the professional attitude which prevails in this business.

The range of appeals that can be used by the life insurance salesman parallels all types of family and special problems for which money is the solution, since life insurance is a plan guaranteeing future delivery of money under contract conditions set forth in each policy.

As families or businesses grow in number or income, the market for life insurance expands, which means that new needs arise for additional insurance. On the basis of these simple facts of life, a salesman is aided by keeping in mind that his principal stock in trade consists of words chosen to pinpoint the hopes, ambitions and purposes of each individual approach.

The portals to this career stand wide open at all times for both the new salesman and the one who has had some experience. The new agent is now carefully selected by all companies of repute and he must prove his mettle in a series of interviews, aptitude tests and conferences. Many companies also consult the wife of the applicant before offering a contract, and if convinced that a man has the potential for success the better companies have methods through which they will finance the new man in becoming established in the business.

Good salesmen are always in demand and age is no barrier. If you like people, are willing to work hard and like to render service to others, you should get in touch with a good legal reserve life company and explore the possibilities of a career for yourself in this great and exciting business.

The successful salesman is a many sided individual. To obtain prominence in his field, to the central ingredient of selling capabilities he must add, on the one hand, social virtues with executive ability on the other.

SALES

MANAGEMENT

BY CHARLES N. BARTON

President of the Charles B. Knight Agency, Inc. Mr. Barton started in the insurance business in 1945. In 1947 and 1948, he qualified for leadership quotas by selling well over $500,000 worth each year. He graduated from Princeton and attended Harvard Business School until entering the service in 1942.

LIFE INSURANCE is, without question, a "growth industry." Future expansion will be at a much faster rate than has yet been developed. More and more reliance is being placed by the heads of families upon the product of the life insurance companies to provide the financial requirements of their dependents.

The high cost of current living and the tremendous "bite" made by income tax make it practically impossible for a man to rely upon the slow growth of savings and investments to do the job that must be done. The "time" element has been stretched over so many future years that only the wildest gambler would dare hope that he would be given that time to build the necessary competence.

Only through the usage of life insurance can he annihilate the element of time. That is the great line of demarcation between the life insurance method and any other plan of building an estate. It could well be called "time insurance" instead of life insurance. By its use the family man knows that his family's security is not left to the element of chance. As Paul Speicher so well put it "he creates an estate which the gravedigger's spade cannot buy."

This usage of life insurance is today universally accepted and recommended not only by those within the industry but by commercial and investment bankers, lawyers, accountants and all others who are in the wide area of estate creation.

Just as there is today greater usage for life insurance on the life of the head of the family, fresher and wider markets have been opened in recent years which promise greater growth than was ever dreamed of in the past.

The use of life insurance for business purposes has expanded tremendously. Industry is realizing that one of its greatest investments is in the lives of their important employees—key men as they are called.

The existence of this life insurance adds strength to the credit of the business since possible creditors know that the death of one who contributes largely to the success of the business will not result in financial weakness.

Another rapidly growing use in business is by partnerships and close corporations. At the death of a partner the partnership automatically ceases to exist until some settlement has been made between the surviving partner or partners and the heirs of the deceased.

Because of this the partners arrange through a formal agreement that at the death of one of them the survivors will purchase his interest in the partnership for a pre-determined price—or in accordance with a predetermined formula. Each partner in turn agrees that should he be the first to die that his personal representatives will sell his interest in the partnership for the agreed price. This "partnership continuation plan" is finding a wider and wider market, and substantial sums of life insurance are placed daily to meet this requirement.

Practically the same thing occurs in the case of close corporations. While the death of a stockholder does not legally terminate the corporation, the practical effect is almost the same. Not only that, the heirs of the deceased stockholder being now minority stockholders can be a very disturbing factor upon the smooth sea of management. The stockholders agree, that at the death of a stockholder, either the corporation itself or the individual surviving stockholders will purchase his stock and thus eliminate the possible interference of minority holders.

The greater interest in the field of employer-employee relations has developed a wide market for insurance that is wholly or partially financed by the employer. Group insurance, which is the baby of all the various life insurance ideas, has taken on lusty growth and each year advances to high amounts that a few years ago would have seemed impossible.

It is generally accepted today that the welfare of an employee and of his family cannot be left to the individual himself. Management senses a moral responsibility—if not a legal one. Stepping beyond the realm of group insurance thousands of organizations today have insured pension plans. The payments from the pension plan supplement what is provided by social security and make it possible for management to arrange an orderly retirement system.

There are many sidelines of these group and pension plans too numerous to mention in this particular article. One of these is known as deferred compensation used for an important employee who, though earning a good salary, is not in a position to provide for his family and for himself because of the high impact of income taxes. Instead of adding to his income tax burden by increasing his current salary, the employer sets aside a fund which, when the employee dies, or if he lives to retirement, will provide money in the one case for his family and in the other case for him.

Another comparatively new but important market for life insurance is known as "juvenile" coverage. Not too long ago it was impossible to launch a

youngster on the acquisition of an insurance estate until he reached age ten. Today thinking parents can start their children on the right foot by insuring them right after they are born.

It is the combination of all these things that makes it proper to call the life insurance business a "growth industry."

The current expansion of the life insurance companies would be greatly enhanced if it were not for the crying need for well trained agents and the still greater one—for capable managers and general agents. The latter need comes first since the selection and training of the agent is one of the most important jobs of the manager.

The companies are well aware of this and are continuously scouting for good managerial material. The building of the agency sales force must follow—not precede the appointment of the manager.

The right man, sitting in the manager's seat, can carve for himself a fascinating and lucrative career. His financial award is directly tuned to his success. He does not have to wait for those ahead to step aside to make room for him.

What are the attributes of a good agency manager? He must be the sort of a man who commands respect—not only of his own agency force but of others in his community. He must take an active part in the local Life Underwriters' Association. He should be interested in and contribute time and effort to civic enterprises such as boy scouts, charity drives, etc. He should be a man who likes people and can get along well with those in all walks of life. He should be a fair public speaker and have plenty of material in and out of his business to discuss.

He must keep himself particularly well posted on changes and personalities in the life insurance business. He must be quick (but not too quick) to make decisions. He should be as good a listener as a talker. Not only does he need to be a good salesman but he should have the ability to teach others how to sell.

He must be a man of high character with complete honesty of purpose. He should be a family man, not only in the ordinary sense of the word, but one whose family life is unblemished.

He should be broad-minded in every sense of that expression—while he may have opinions of his own he should respect the different opinions of other people remembering "there's nothing either good or bad but thinking makes it so."

It is essential that our future manager start his career as an agent in the field. Unless he has had the experience of brushing elbows with the public; of presenting propositions to them; of meeting their objections and using the best of salesmanship in placing cases that seemed perhaps at the beginning impossible, he will not be able to pass on that ability to the agents who will later look to him for guidance. They will not have respect for his statements unless they know that he too pounded the pavements as they are then doing.

While the accent in a life insurance agency is on salesmanship and sales, the manager also is the head of the business organization of his agency. He will have direct charge over the office personnel—he will be responsible for the proper handling of the office funds and of making the necessary reports at the proper time to his own company heads.

There are many splendid organizations connected with the life insurance industry. Not the least of these is the National Association of Life Underwriters and its state and local branches. The manager should, perhaps not at the inception, but as soon as possible take an active part in local Life Underwriters' Association affairs.

Closely connected with but not a direct part of the National Association of Life Underwriters is the Life Underwriter Training Council. This organization was started a few years ago as a nationwide attempt to give training to agents at the field level. It has been a tremendous success. Hundreds of classes from coast to coast are conducted throughout the winter months. Our manager should become active in this organization too.

Quite early in his career the manager should aim to acquire the Chartered Life Underwriter designation. This ability to carry the letters CLU after his name means that he has done serious studying, not only in the fundamentals of life insurance but in other related subjects of which he should be fairly cognizant. In lay language this is his masters degree in life insurance.

At first glance it may seem that these subjects are quite foreign to the work of the life insurance agency manager. Not at all. He will find that quite a little of his time will be spent in discussing the usage of life insurance in trust agreements and he will have to have a fairly good understanding of the work of the trust officer in order to talk his language. The same thing applies to attorneys. The attorneys are called in to draw wills, to prepare legal documents in connection with agreements embracing life insurance, and a manager will often be asked to give his practical experience in the usage of life insurance in these directions.

I am sure you can see from all this that the life of the life insurance agency manager is a most challenging and varied one. There is never a dull moment. Each day brings forth new problems—new challenges. There is little of routine in his life.

Just as the industry as a whole is headed for greater and greater growth so the manager himself has opportunities for personal expansion that in this man's opinion are not available in any other field of activity.

The life of the life insurance agency manager is not all work. In attending company conventions, association meetings, luncheons and banquets he will have an interesting and satisfying opportunity for relaxation. He will at these gatherings meet the most capable men in his own industry with many opportunities of giving and taking, of exchanging ideas, of passing on to others valuable information and gaining much for himself.

It is a most broadening life. To me one of the great things about this work is the endless opportunity for self-improvement. No man, no matter how many years he has been active in the life insurance business, can claim that "he knows it all."

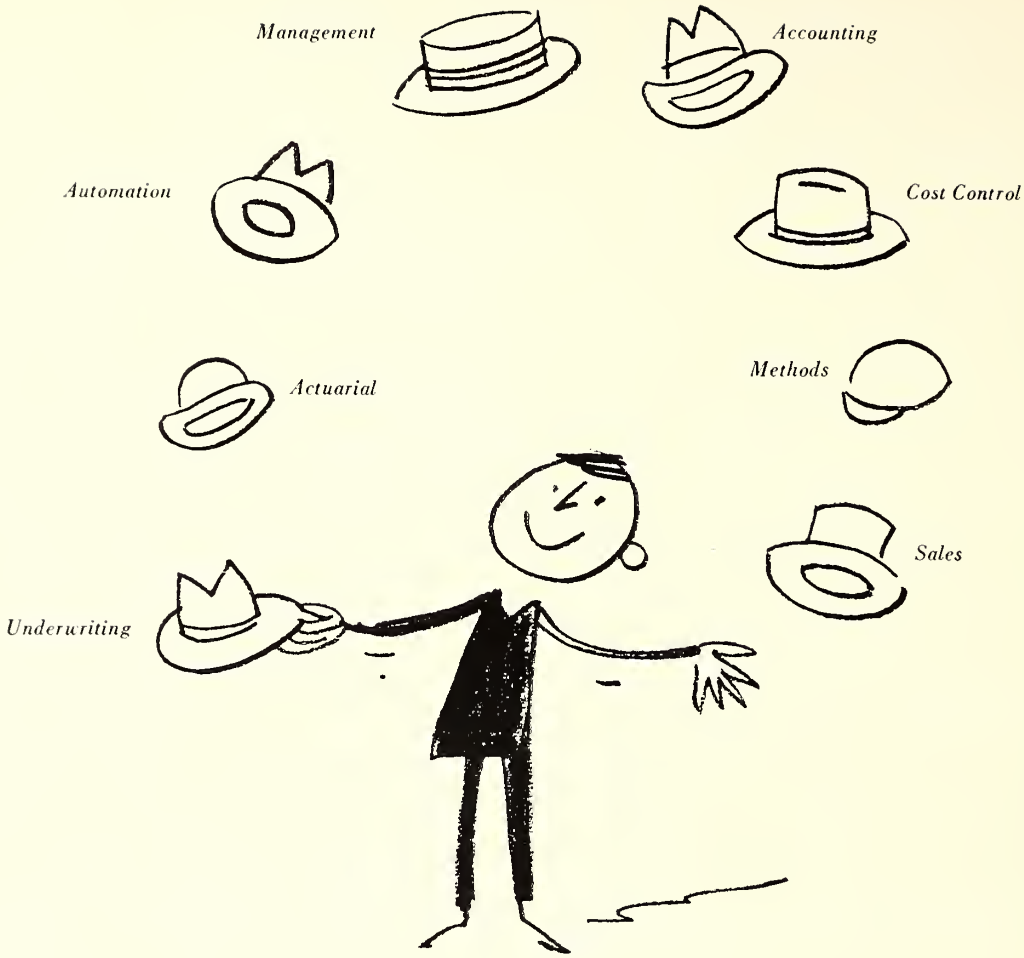
All in all, unlike W. S. Gilbert's policeman, the life insurance agency manager's life is a very full and exceedingly happy one.

My own experience is probably typical. After World War II I started in at the bottom of the ladder. I pounded pavements, rang doorbells and did all the chores of the embryonic agent.

I took an elocution course at a local university—then a short course in dramatics to give me voice control and physical poise. I completed the company's correspondence course. Later I took a campus training course at SMU where study and field experience were carried on under careful supervision.

Meanwhile I was studying for my CLU designation. Looking back I find I spent a great deal of time in various classes, not a single one of which I would have missed. I became active in the Life Underwriter's Association of the City of New York of which I am at present chairman of the board. It has been a busy time but never over-crowded. I have found time to become active in my church and on its council, on the directorate of the local community club and cub-master in this area. Each and every activity has, directly or indirectly helped me to do the over-all job I am called upon to do.

Am I happy in my work?—I love it.



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PART III CONTRIBUTIONS TO THE ECONOMY

Night scene at U. S. Steel's South Chicago Works taken from the 92nd Street bridge over the Calumet River.

United States Steel Corporatio

CAPITAL

FOR INDUSTRY

BY EDMUND FITZGERALD

President of the Northwestern Mutual Life Insurance Company. Mr. Fitzgerald graduated Phi Beta Kappa from Yale in 1916, and held various positions with industrial firms and banks before starting to work for Northwestern Mutual in 1933 as a vice president. Mr. Fitzgerald, who holds a Doctor of Laws degree from Marquette University, became president of his company in 1947.

LAST YEAR the life insurance companies of this country invested about $12 billion in long term securities. That is a great deal of money, so much in fact that it is more than one can comprehend. It is $480 million per working day, $60 million per working hour, or to bring it closer to mind one million per minute. To the people charged with this tremendous investment problem there is a fascinating challenge, to the country as a whole there is given the indispensable wherewithal for progress and growth in production facilities.

Four out of five families in the United States have life insurance policies of some kind or another and it is they that contribute the vast sums of capital available to industry. The average person considers life insurance emotionally; its primary function is "protection" in the event of death, yet actually many forms of insurance are potent sources of savings. At the beginning of this year life insurance represented about $70 billion of savings, more than any other single source.

How does this occur? The dollars paid in premiums are held by the company to be paid out at some later date in benefits. During this interim the funds are invested.

Where does the money go and what does it do? Are the life company investment officers and finance committees conservative gilt-edge bond buyers, unwilling to risk the perils of financing the new construction, new methods, and new processes without which our economy could not progress? Quite the contrary. With great imagination and skill life insurance savings have been placed in areas of great benefit to all of us. A few examples might be of interest.

Shortly after the Korean incident an alarming shortage of aluminum became apparent. The government in 1950 urged the producers of the metal in this country to increase productive capacity by many millions of pounds and in following years urged further expansion. The domestic companies went into action, and the major producer in Canada also entered into a very large program to increase output. The result is that aluminum capacity upon completion of construction programs currently under way will have increased from about one million tons to over three million tons or 300%. The total cost will be more than $2½ billion, and the life companies through their purchases of first mortgage bonds and debentures provided a large part of it.

Another example—

As we all know, the steel industry is a basic and vital factor in our economy. It is also growing. Per capita consumption in 1930 was 741 pounds, and, in spite of our great growth in population, last year consumption per person was double that of 1930.

In order to make steel we need iron ore. For many years the iron ore deposits of Minnesota, Michigan, and Wisconsin supplied the basic needs of our steel industry. The ore lay mostly on or near the surface where large power shovels could scoop it up. This was fast and inexpensive and the high grade material could be shipped directly from the mine to the blast furnace without treatment.

Until recently even the experts thought these ore deposits would last indefinitely, but two factors upset their prediction. One was the enormous requirements of World War II, and the other the dramatic rejuvenation of the American economy beginning at the end of the thirties. Together these meant a tremendous increase in the consumption of iron ore. Shipments quadrupled since the thirties, and requirements continued to rise. The old sources of supply were clearly deficient. Bold imaginative action was required and it was provided.

New mines were opened in Venezuela, Liberia, and other overseas countries. But the requirement of national safety demands reserves on our own continent. With money and courage, the steel industry and the small saver as represented by the life insurance companies made great contributions.

Groups of steel companies were formed, and hundreds of millions of dollars were expended in the opening of mines in Canada and in the development of processes to improve the quality of low grade ores in this country. The way was opened to provide an additional source of more than 40 million tons of high grade product for the blast furnace.

Most of these projects required large scale financing of which the life insurance companies provided a major part.

These examples, of course, are big and dramatic. The life companies make many investments in smaller companies which in their total exceed the impact of the larger, more impressive enterprises. As an industry we are active in all phases of our country's development—in paper making, in transportation, in oil and gas, electric utility, food processing and distribution, and many others. It is a rewarding career for those engaged in the investment departments of life insurance companies and one of great economic importance to our society.

GOVERNMENTAL RELATIONS

BY FRAZAR B. WILDE

President of the Connecticut General Life Insurance Company. Mr. Wilde has been with Connecticut General since 1914, and president since 1936. He was one of the founders and first chairman of the Institute of Life Insurance, and has served as president of the American Life Convention.

In its nearly two centuries of American history, the life insurance business has become—like government itself—an almost all-pervasive institution. It is owned by about 9 out of every 10 fathers. On behalf of its policyholders, it holds assets amounting to ninety billions. It pays a tax bill of half a billion dollars. At times it has been a whipping boy of politicians and, now and then, has had its quarrels with legislators and administrators. It has helped to finance the great public projects of our era—the highways, schools and hospitals of peacetime and the tanks, ships and planes of war. It has even provided the cash to meet the public payrolls and fuel bills when a legislature failed to give a governor (who was also a life insurance president) his budget appropriation.

The life insurance business has been one of the staunchest defenders of sound money for our country, and has helped retard the inflation that has wrecked so many economies elsewhere. State governments have served as the regulators of our business. The tax collectors of just about every governmental unit in the land have sent us their bills. Our people serve on boards and commissions, in councils and legislatures contributing their special skills and their knowledge of people and economics.

Life insurance and government, in other words, are in a working relationship every day and everywhere in our land. The political philosophies of personal responsibility and individual initiative which pervade our government are also the ideas which foster life insurance. Our own country and the countries most like ours—the British Commonwealth, the Scandinavian democracies, Belgium, Switzerland, for example—have reported the greatest growth in this system of economic protection.

Charters, first of the Pennsylvania colony, later of the states, granted the existence of the early companies, just as they do today. The beginnings of state regulation of life insurance were in Massachusetts, where in 1837 the legislature required the compilation of official reports on insurance. New Hampshire, 14 years later, established the first regulatory body to examine the affairs of life insurance companies. The other states soon adopted systems of regulation and set up departments to administer them.

Two governmental events which, in their day, seemed like tragedies to the short-range thinkers in our business turned out to be tremendously significant milestones in the growth of modern life insurance. One was the establishment of a $10,000 life insurance program for the servicemen of World War I. Instead of taking care of their insurance needs for life, as the pessimists of our business said this would, the government's establishment of the $10,000 maximum simply helped the industry to educate its clientele toward the purchase of more adequate amounts of insurance. Another was the enactment in 1935 of the Social Security Act to provide a basic retirement income and, later, to yield survivor benefits and, currently, disability benefits. Although the law can be properly challenged on many counts, both in its philosophy and its provisions, on net balance it has helped our business. By providing a basic minimum of the benefits our business provides for individuals, it has helped millions of people construct through private insurance their own more complete plans of personal and family protection.

The life insurance business to this day has not worked out all the problems of its relationship to government. And, probably, it never will. This is one of the interesting aspects of working for a life insurance company, the fact that in many ways it brings a man into contact with public affairs on all levels of government. More than many of our citizens, life insurance people tend to learn a great deal about government. Every now and then an insurance man gets a chance to speak on a question of public policy and perhaps, if he speaks well enough and intelligently enough, to exert some influence for good on a public decision.

Local government makes many decisions on such matters as zoning, urban planning, land use and suburban development and, of course, local budgets and local taxes. The life insurance business holds the mortgages on thousands of homes, farms and business properties located in just about every tax jurisdiction. It owns shopping centers, office buildings, housing developments and many other kinds of real estate as investments on behalf of its policyholders. The decisions of local government in the basic questions of how shall the community grow and be developed are close, of course, to the well being of our business and of the community as a whole. The life insurance business, as such, never gets a vote in these matters, but it can and does help to marshal the facts and present relevant experience to the people who do. Pension plans for government employees and group insurance benefits for them are special questions of local government in which our people help. The agent, with his love of people and his economic training, is an

ideal sort of public servant. He devotes a million evenings in a year to his duties as councilman, library director, school board member or representative from his district in the state capitol.

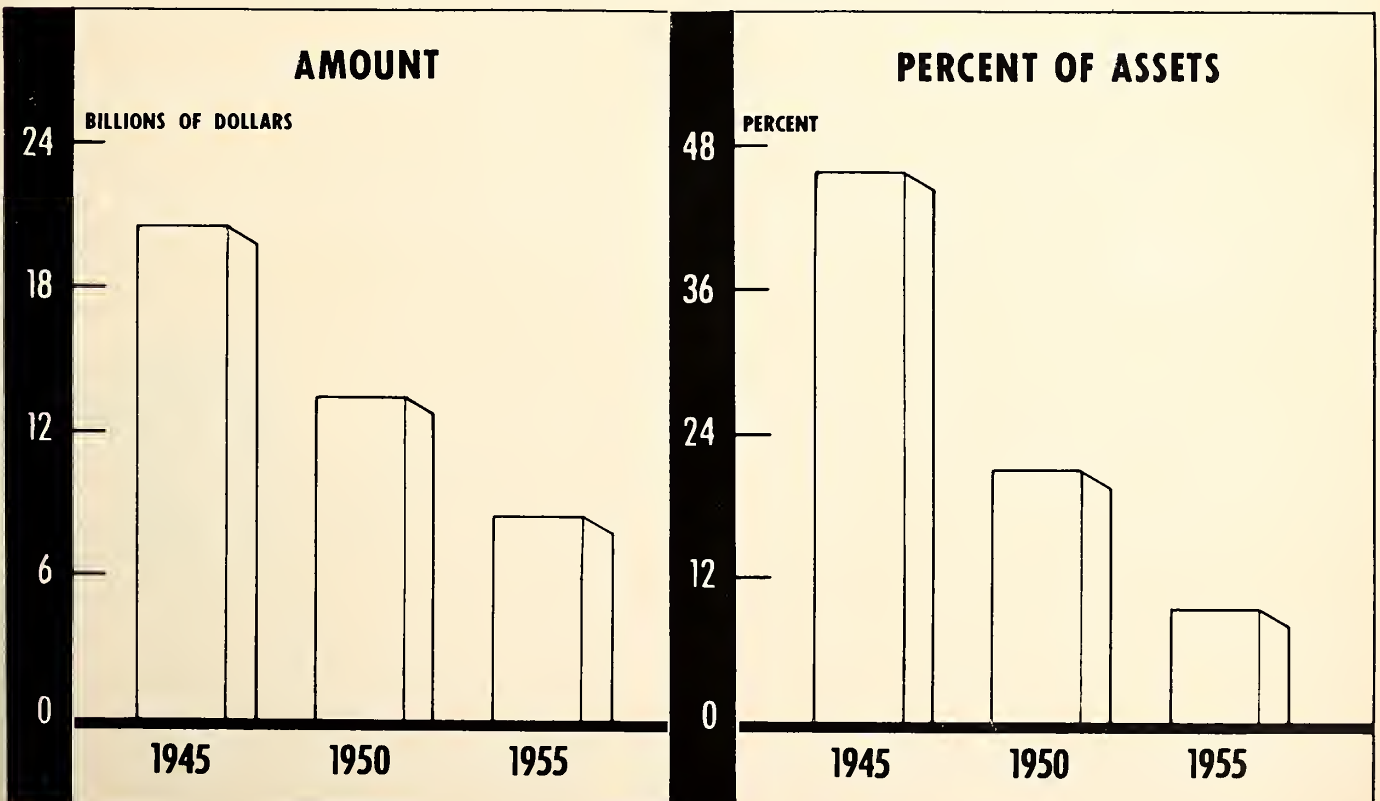
A life insurance man sometimes gets an even more august position in government than that of representative to the legislature. Morgan Gardner Bulkeley, president of the Aetna Life Insurance Company, was governor of Connecticut back in 1890. The election that year was so close that nobody won a clear majority for the major state offices. Under the Constitution, the General Assembly should have selected the new officials. The Senate, however, was controlled by one party and the House by the other and they were never able to resolve their deadlock. The Assembly adjourned without completing the election and without voting any appropriations for the maintenance of the state government. In the crisis Governor Bulkeley stayed in office and had the state bills sent to the Aetna. The Aetna kept the accounts and paid the bills and, finally, two years later, the Assembly reimbursed the company.

In the 48 state governments, not to mention the District of Columbia, the territories and all the provinces of Canada, the insurance departments are staffed by technicians deeply knowledgeable in our business. They work under the leadership of appointed superintendents or commissioners. Their job is to administer the rules under which the business operates. The reason for their existence is, for the most part, to make sure that the public institution of life insurance lives up to its tradition of public service. The insurance men in the companies have their debates with these insurance men in the state offices. But the debates are the rare events that make the headlines. For the most part the relationship is a smoothly working partnership in the interest of protection for the public. The longer you work in our business the more profoundly you respect these insurance people in government for their ethics, their craftsmanship and their diplomacy. These contacts are handled, in part and not unexpectedly, by lawyers. Counsel for the companies appear before the executive hearings and the legislative committees continuously seeking to improve the laws and regulations. But the day-to-day relationships are between the underwriters, the actuaries and the claim people of the companies and their counterpart technicians in the state departments. And the public is better served too.

So much negotiation by the companies with the officials in so many states might seem to be quite a nuisance to the companies. It is. However, the disadvantages of cumbersomeness are not as great as the advantages both to the public and to the business, and we support the principle of state regulation. As long as the states—as they do—accommodate each other's point of view, state regulation through varying interpretations of the best way to serve public interest leads to change and progress. A single system of regulation nationwide would be likely to stifle the adaptability of life insurance to the changing needs of our people.

It is in Washington where some of the greatest decisions are made, and the greatest controversies are carried on. The Federal Government continuously threatens to encroach on the role of the states in the regulation of the business. The writers of tax legislation look enviously at the sums reported in the annual statements of the life insurance companies and need often to be reminded that the money, for the most part, is much like the deposits in a savings bank and is already committed for the benefit payments of the future. The Federal Government, through the Veterans Administration, is deeply in

U. S. GOVERNMENT SECURITIES OWNED BY U. S. LIFE COMPANIES



the life insurance business (following a system which many people from the life insurance companies helped to set up).

But perhaps most important of all, the Federal Government, by exercising its powers of fiscal and monetary control, has much to do with establishing the value of a dollar. Our industry, which exists to provide a certain number of dollars at a certain future time, is deeply concerned with the way government wields these powers. Many people in life insurance are students of the subject. They are continuously working for governmental practices which will preserve sound money values, and they continuously urge their fellow citizens to work for the same thing. A little inflation can easily become a disastrous and uncontrolled inflation. And even a "little" can inexorably and tragically tax those least able to afford to pay: the people living on fixed incomes and in no position because of age, career choice or limited capacities, to raise their dollar incomes.

The assets of the life insurance business, which for the most part are the reserve funds earmarked to meet the policy obligations when they become due, are an important source of capital for all governments—federal, state, local and, to some extent, foreign. When a life insurance company sells a policy, it estimates the amount of interest the reserve will accumulate in the life of the contract and then adjusts the premium downward accordingly. The premiums paid in by the policyholder pay only a part of the cost of his protection; the interest earnings pay the rest. This money available for investment comes dramatically to the aid of government in times of crisis. In World War II, for example, almost half of all life insurance assets (specifically 46 per cent in 1945) was in U.S. Government bonds to finance our military production. In more ordinary times, the investments are directed chiefly into private hands to finance the development of industry, agriculture and homes. Today about a tenth of life insurance assets is in federal government bonds.

The bonds of state, provincial and local governments have been bought in increasing quantities by life insurance companies since the end of World War II. There has been a growing need for state and municipal services such as roads and schools, brought about by rising populations and by deferment of projects during the war. Much of the money needed to build the new turnpikes and throughways has been generated through life insurance investment. Holdings of foreign government bonds (mostly of the Dominion of Canada) have followed the pattern of investments in United States government securities, up during World War II and currently tapering off.

As in so many other aspects of life insurance work, the task of investment analysis brings many of our people into contact with the doings of government. We find life insurance people serving as private citizens on committees and commissions concerned with highways, port development, state institutions and other public projects, often as experts on questions of financing.

Life insurance as a business tries its best to be a good citizen. That job brings its people into working contact with our government at every level. Moreover, life insurance urges its people in their private lives to carry their share of the citizen's responsibilities. Perhaps because of their jobs, they are able to do that in a superior way and to derive the life-long satisfactions that result. To me, this exposure to government and participation in it is one of the good reasons for a career in life insurance.

FARM MORTGAGE

FINANCING

BY FREDERICK W. HUBBELL

President of Equitable Life of Iowa. Mr. Hubbell joined Equitable of Iowa immediately after his graduation from Harvard in 1913. He was a vice president by 1921, and reached the presidency in January 1939.

AGRICULTURE can be classified as man's most important economic activity in that it supplies the basic necessities of his daily life. The growth in the complexities of our way of living and the development of synthetic fibers have led to some decline in the relative importance of agriculture over the years. However, one person in six still lives on a farm, and agriculture still accounts for a very important segment of the total national product, surpassing by a substantial margin such industries as automobiles, mining, petroleum, textiles, chemicals and many others.

Agriculture could not be carried on in a way which would meet the needs of our modern civilization without credit. Farmers must have short-term seasonal credit to finance the production of crops and feeding of livestock and longer term credit for the purchase of land and equipment and the construction of buildings and other improvements. Credit has played an important role in agriculture for many years, but with the trend towards mechanization and larger farms it has assumed even greater importance.

At least two-thirds of the farms purchased in this country are acquired with the use of credit. It is only through borrowing that the average young tenant farmer can buy a farm, and credit is needed when a farmer wants to enlarge his farm in order to make it a more efficient and economic unit under today's mechanized operations. A man can usually step up from hired hand to tenant or from tenant to owner only through the use of credit, because it requires a substantial sum of capital to operate a farm today. According to the United States Department of Agriculture, of the 21 important types of family-operated commercial farms, ten have an average total investment of more than \$40,000, nine range from \$20,000 to \$40,000 and only two have an average investment of less than \$20,000. Relatively few farmers—particularly beginning farmers—have capital funds of their own in these amounts.

Life insurance companies have long been a major source of credit for agriculture. Their farm lending activities are restricted by law to mortgage loans, short-term production loans being more appropriately provided by the banks. In the field of mortgages the life companies have become increasingly important relative to the total farm mortgage debt outstanding. In 1955 life companies had outstanding more than 200,000 farm loans, totaling about \$2¼ billion and accounting for one-fourth of the total farm mortgage debt in the country. This was a substantially larger figure than the outstanding farm loans of the next largest lender, the federal land banks, a government sponsored agency which accounts for about 15% of the total. The balance of the farm lending is done by commercial and savings banks, individuals and others.

Farm lending has been fraught with hazards over the years and it has required astute analysis and conservative lending policies for insurance companies and others to operate successfully in this field. American farmers have seldom known long periods of economic stability. Prices of farm products have been subject to violent price movements in connection with each major war. War-time inflation and increased demand for farm products have brought sharp rises in farm prices and incomes as well as in farm land value and debts. In the past these periods have been short-lived, followed by periods of severe depression characterized by wide-spread farm mortgage distress.

The farm loan activities of insurance companies extend back many years, contributing to the opening up of the West to agricultural development. Insurance companies had representatives on hand or local brokers acting for them in many areas as soon as communities were organized and access to markets gained. Information regarding these activities before the turn of the century is scant, but there are records of mortgage loans made in Illinois, Wisconsin and Iowa in the 1870's and 1880's.

During the decade 1900 to 1910 there was a steady rise in prices of farm commodities accompanied by wide increases in land values. On the average farm real estate doubled in price, and it tripled in many counties in the Great Plains, mountain region and western Texas.

There followed a few years of price stability for farm products, but with the advent of World War I prices skyrocketed. By early 1920 they averaged more than 2½ times the 1910–1914 level. This was accompanied by sharp increases in prices of farm lands, which at the peak in 1920 were 73% above pre-war levels. The war years and especially the early post-war years of 1919 and 1920 were characterized by a very active and speculative farm real estate market. Foreclosures were relatively few. Farmers often invested their profit in more land, equipment and livestock. The feeling was widespread that prosperity would continue indefinitely. This speculative activity sewed the seeds of some of the grief that was to follow over many ensuing years. Many of the areas that were most prosperous and where land speculation was greatest were to suffer the

most in later years of depression.

Credit to finance expansion was abundant during World War I. Between 1910 and 1920 more than 3,000 new banks were organized, most of them in the Midwest. Farm debt increased rapidly. Farm mortgage debt rose from about four billion dollars just prior to the war to more than ten billion dollars by the end of 1920 with the greatest rise coming in the years 1918–1920.

During these years the life insurance companies were making only about 8% to 12% of the total farm mortgage loans. Bankers were making a larger proportion, but the great bulk was made by individuals and others.

By the middle of 1920 a spectacular collapse in farm product prices took place, setting off an agricultural depression. The index of farm prices (1910–1914 equals 100) declined from a high of 237 in May, 1920 to 111 by June, 1921! There was less of a decline in prices paid by farmers, which resulted in a drastic shrinking of net farm incomes. The situation was aggravated by droughts in several of the northwestern states. The enormously expanded debt structure of agriculture was very vulnerable to such a shock. Credit began to tighten and many short-term loans were called, forcing some farmers out of business. Others were able to stave off disaster by funding their short-term notes through additional mortgage loans from life insurance companies and others. As a result of this funding, total farm mortgage debt continued to rise through 1923 to a total of $10.8 billion, a figure which has not been equalled even today.

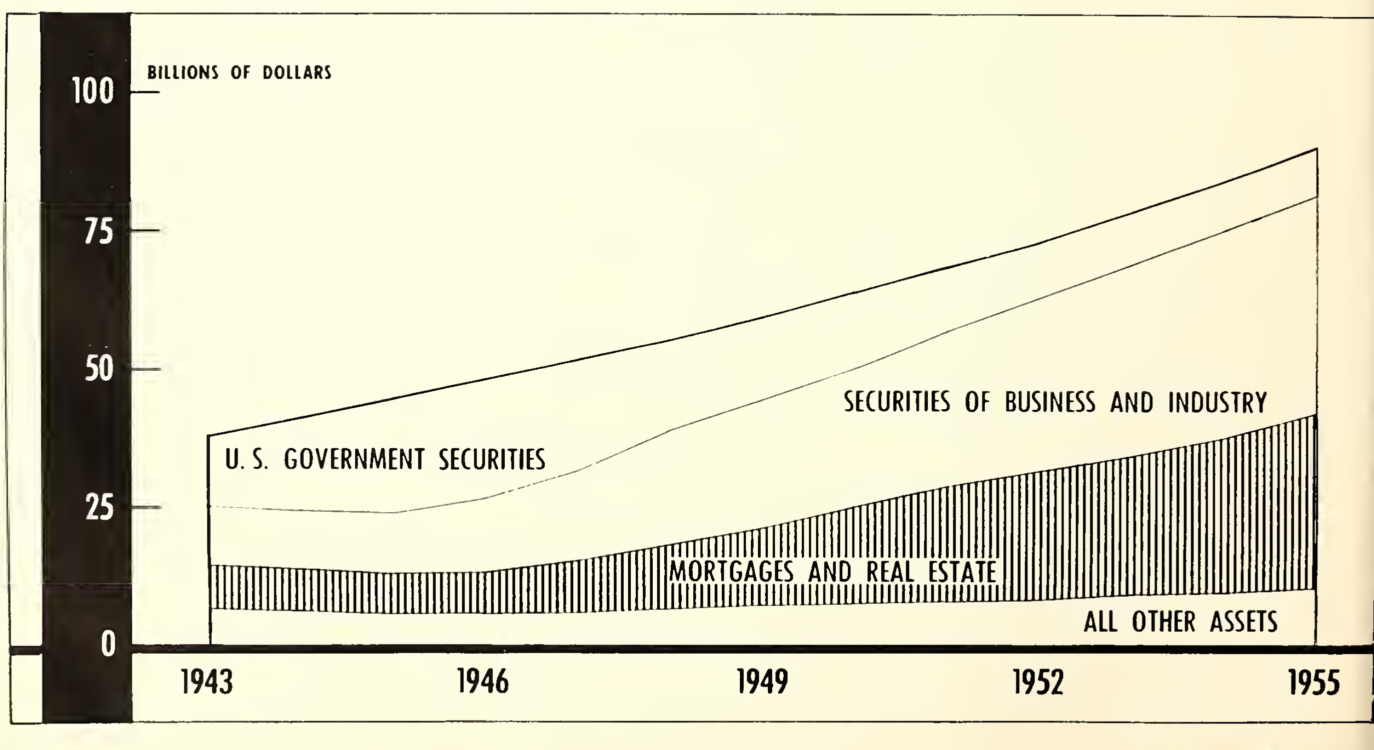
By 1923 farm prices had made a substantial recovery from the 1921 low, but net farm income remained depressed due to a continued unfavorable price-cost relationship. Throughout most of the decade of the 20's land values declined, reflecting adjustments to the lower level of farm incomes. Farm failures and foreclosures were heavy during the period. Many banks failed during the 20's, especially in the farming areas of the Great Plains, the Southeast and the mountain states. The insurance companies, however, continued to make credit available during these years for farm loans where they felt they were justified. Insurance company farm mortgages continued to increase until 1928 by which time they amounted to $2.2 billion or 22% of the total farm mortgage loans outstanding.

Following the problems in the 20's agriculture faced catastrophe in the early 30's. With the onset of the great depression, the bottom fell out of prices of farm products until by 1932 they were less than half of the 1929 average and well below the pre-war level. Net income of farmers, which had reached a peak of $9.3 billion in 1919 and had averaged $5.7 billion during the years 1923–29, fell to only $1.9 billion in 1932. Farmers found it difficult or impossible to continue payments on debts contracted at higher income levels. There were second, third and fourth mortgages on many farms as well as liens on chattels. Farm land values dropped precipitously, and distress transfers increased at an alarming rate. Conditions became so serious in some farming areas that several states passed laws delaying foreclosures, extending redemption periods and eliminating deficiency judgments, although some of these laws were subsequently declared unconstitutional.

The receivers of closed banks procured judgments against farmers in many cases, and insurance companies and other mortgage lenders found it necessary to take title to many farms. Some farmers were ready to deed their property to the mortgage holder in satisfaction of the loan, feeling that they would be better off as tenants, but even in those cases there was a problem of clearing the title of junior liens, and in most instances a foreclosure suit was necessary.

In many cases the life insurance companies went to great lengths to help deserving borrowers work out their problems. One life company, which was an important farm lender in the middle west, for a period of ten months starting in 1933 accepted bills of sale for corn in payment of interest on farm mortgage loans. The company granted the borrower a credit for his

DISTRIBUTION OF ASSETS OF U. S. LIFE COMPANIES



corn of 50 cents per bushel, a price considerably above the market. This credit was applied on current interest, with the company agreeing that any profit above that amount made on subsequent resale of the corn would be applied on the loan balance. About half of the corn which the company acquired in this manner had been stored in poor cribs and it was necessary to sell it before winter in 1933 at prices ranging from 33 cents to 40 cents per bushel. The other half of the corn was held over until 1934 when, due to drought conditions prices of 90 cents to one dollar per bushel were realized. The profits were credited on the loan balances.

In cases where it became necessary to take title to the farm some insurance companies adopted the policy of giving options of repurchase to those farmers who cooperated. Most of such options provided that the farmer could repurchase the farm at a fair price through a down payment of 10% and small annual payments thereafter over a long period of years. The farmers who accepted such options were able to clear their debts and get back on their feet rapidly. Even where there was no option in many cases farms were sold back to the original owner on easy terms.

Where options were granted the repurchase price was fixed as of the date of option with the provision that there should be added thereto all sums which the lender advanced for drainage, seed, fencing, buildings, taxes, etc., deducting the income received from crops and other sources.

Virtually all of the farms in the distress areas had been permitted to run down during the 20's, since the farmers did not have adequate funds to spend on drainage, soil conservation, fences or buildings. Accordingly, extensive renovation and rehabilitation was necessary when lenders took title to a farm. Insurance companies spent large sums of money for wells, tile, drainage ditches, clearing, seed, fertilizer and maintenance of buildings.

At the worst of the depression in 1932 and 1933 approximately one-fourth of the total farm investments of life insurance companies was in farms to which they had acquired title or in loans under foreclosure. This was a serious situation, but it should be kept in mind that investors were also encountering difficulties with other types of investments during these years.

Losses were realized on some of the farms as they were liquidated, but on others the experience was more satisfactory. Data provided by 13 life insurance companies shows that on all farms sold by those companies between 1929 and 1937, inclusive, receipts from sales amounted to 90.4% of the investment indicating a loss rate of 9.6%.

During the years of recovery from the depression there was a gradual but irregular improvement in farm prices and in land values, but farm mortgage debt followed a declining trend until the end of World War II as lenders continued to liquidate their positions.

After the close of World War II when controls were released prices of farm products sky-rocketed until by the end of 1947 they had nearly tripled from the 1939 level. This was accompanied by substantial increases in land values. Farm mortgage debt reversed its long-term trend and grew from the low of $4.8 billion in 1946 to $8.2 billion in 1955. During these post war years insurance companies became more aggressive in their lending and increased their proportionate share of total farm mortgage debt from 18% in 1947 to 25% in 1955.

The situation with respect to farm debt is considerably sounder today than it was during the 1920's and 30's. Farm mortgage debt is now equal to only about 9% of the total value of farm real estate, whereas at the peak of $10.8 billion of debt in 1923 it amounted to 21% of the value of real estate. Seven out of ten farms have no mortgage debt.

Certain developments in agriculture have tended to reduce some of the risks in farm mortgage lending. Great advances have been made in controlling the ravages of plant and animal diseases, insect pests and weeds.

An important factor in reducing the hazards in farm mortgage lending has been the development within insurance companies of a professional personnel to handle appraisals, negotiations of loans and real estate acquired. Some companies which formerly bought their farm mortgages without much examination have in many instances established branch offices in the loan territory in which they operate with a trained staff of appraisers and farm mortgage men to negotiate and supervise the loans that are made. Properly handled farm mortgage loans can be a sound avenue of investment for insurance companies, making a substantial contribution to the economy of the country, provided competition from the federal lending agencies does not force interest rates to an uneconomic level.

* * *

PUBLIC UTILITY AND RAILROAD FINANCING

BY GEORGE W. WELLS

Recently retired president of the Northwestern National Life Insurance Company. Mr. Wells received his LLB from St. Paul College of Law and, soon thereafter, became Minnesota Insurance Commissioner. Resigning this post in 1928, he joined Northwestern National and became its president in 1951.

THIS ARTICLE is intended to provide a brief review of one aspect of the life insurance industry's contributions to our country's over-all economic activity—namely, the part played by the life insurance companies in the financing of the public utility and railroad industries. Accordingly, it seems appropriate to begin by touching briefly upon the economic importance of the utility and railroad industries in our national life.

The term "public utilities" as we use it here includes only electric light and power, gas, and telephone and telegraph. Solely for reasons of convenience, we are excluding street railways, bus transportation, water and sewage services, etc. In our use of the term "railroad industry" we are excluding intercity transportation of freight and passengers via truck and bus by non-railroad companies.

Not only do our public utility and railroad industries provide essential services used by every member of society—services which are frequently taken for granted but which constitute a most important part of our national standard of living—but they also contribute to our economy in other important ways. To illustrate these points with a few facts:

In 1954 the public utilities provided this country with 382 billion kilowatt hours of electricity and more than 58 billion BTU of gas, while maintaining almost 50 million telephones in service. The railroads in 1955 moved about 2,618 million tons of freight over an aggregate of about 624 billion ton-miles, while transporting nearly 432 million passengers over more than 28½ billion passenger-miles. The railroads and public utilities combined paid more than 3 billion dollars in taxes and provided employment for roughly seven per cent of our total working force.

To provide such services the public utilities and railroads have spent over 41 billion dollars during the ten years ending 1955 on new construction and equipment, in addition to nearly 36 billion dollars for maintenance of older structures and equipment. In short, it is obvious that the public utilities and railroads represent large and vital sections of our national economic activity, and the financing of their capital expenditures is an important financial function.

* * *

Just how much has the life insurance industry contributed towards financing the capital requirements of the public utility and railroad industries during recent years? No precisely accurate answer can be given because the available statistics on acquisition of the securities of utilities and railroads by the life companies include bond refundings and stock switches—which, of course, do not represent net additions to the supply of capital.

However, we know that the total public utility bonds owned by all legal reserve life companies combined amounted to 5,212 million dollars at the end of 1945; and had increased to 13,900 million dollars by the end of 1955. These figures are not precisely comparable to the data on capital expenditures referred to above because they include investments in the bonds of private water companies. However, the discrepancy seems to be comparatively modest, probably not over two percent. The ten year net increase in investments of 8,688 million dollars gives us a rough guide to the contribution by the life insurance industry to the bond financing of the public utilities. The figure is, of course, a considerable understatement because it makes no allowance for sinking fund payments, maturities and unrefunded calls.

Data on the ownership of public utility stocks by life companies are not available before 1947; but during the following eight years the aggregate life insurance investments in utility stocks increased by almost one billion dollars, in the ratio of roughly two-thirds preferred stock and one-third common. It should be kept in mind that part of the rise in the common stock investment represents a rise in the market prices of the shares rather than a net flow of capital to the public utilities.

* * *

By similar methods we find that the life companies increased their holdings of railroad bonds almost exactly one billion dollars net during the decade ending in 1955, while their investments in rail stocks increased by the nominal amount of 57 million dollars.

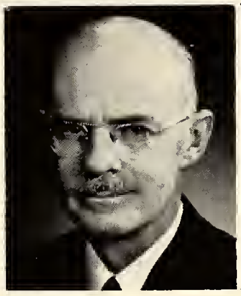
In the paragraphs just above we have seen that the life insurance industry has poured something more (probably substantially more) than 10½ billion dollars of new funds into the utility and railroad industries during the last ten years. This amounts to more than 25% of the total capital expenditures by the utility and railroad industries.

It seems clear, therefore, that the insurance industry has made a most important contribution to the development of the railroad and utility industries and their capacity to serve the public.

CANADIAN

LIFE INSURANCE

BY R. LEIGHTON FOSTER



Managing Director of the Canadian Life Insurance Officers Association. Mr. Foster was educated for a law career at the University of Toronto, McMaster, and Emmanuel College, Cambridge. Later he turned to insurance and was appointed Superintendent of Insurance for Ontario in 1924. He is regarded as an expert in insurance law.

In 1833 a British life insurance company opened a branch office in the City of Quebec. In 1847 the first Canadian company was organized in Hamilton, Ontario. Three years later a United States company commenced business in Montreal.

Life insurance in Canada today retains its international character. Over eighty Canadian, United States, British and Dutch companies are serving Canadians. On the other hand, over 40% of the premium income of Canadian life insurance companies comes from outside Canada. In fact, the premium income of Canadian companies in the United States now exceeds the premium income of United States companies in Canada.

Life insurance in Canada has, of course, come a long, long way since its beginning in the mid-1800's. The ratio of life insurance in force to national income is higher in Canada than in any other country in the world. The Canadian ratio in 1955 was 128%; the US ratio 115%.

It is estimated that some 6½ million Canadians owned $26.6 billion of life insurance at the end of 1955. This works out about $4,100 per policyholder or about $1680 for each man, woman and child in the country. There is twice as much life insurance in force in Canada today as there was only seven years ago.

Ordinary insurance accounts for 69%; group insurance for 24%; and industrial insurance for 7% of the total life insurance in force in Canada. Group insurance has been increasing at the greatest rate since 1939.

There has been a pronounced increase in term plans and riders in recent years. In 1955, 54% of the amount of life insurance purchased by individuals was on a life plan, 12% on an endowment plan and 34% represented either term insurance or temporary term insurance under family income and other riders to permanent plans.

Canadians have always bought life insurance primarily to protect themselves and their families from the cessation of income that arises at the death of the income-earner. In 1919 Canadians held life insurance in an amount just about equal to their wage-salary income; today they hold twice that amount.

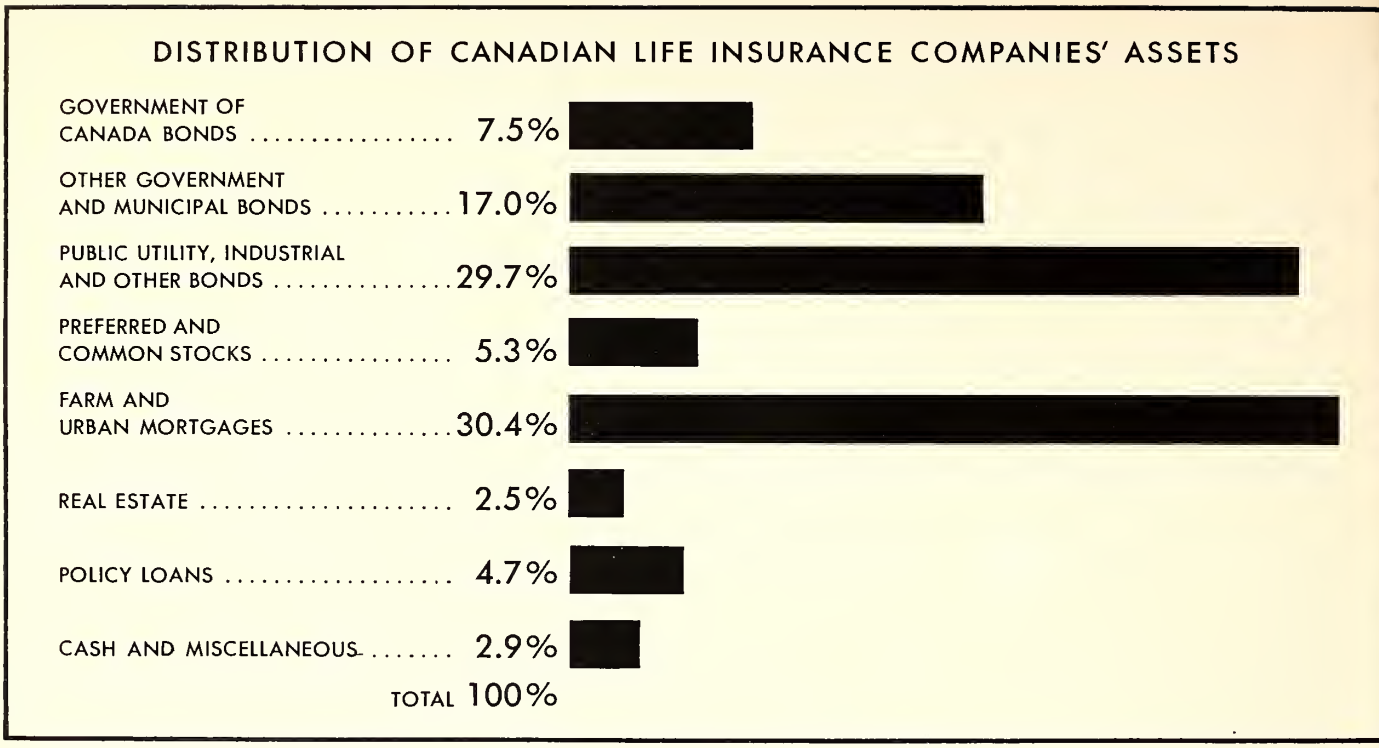
Analysis of the provincial distribution of life insurance in force shows that, for each province, with the exception of Newfoundland and British Columbia, there is a close relationship between its share of life insurance in force and of wage-salary income. For example, Ontario has 46.2% of the insurance in force and 42.3% of the total wage-salary income in Canada; Quebec 25.9% of the insurance in force and 25.8% of the wage-salary income. These two central provinces and British Columbia together account for 80% of the total life insurance in force and 79% of the wage-salary income in Canada.

Most life insurance companies in Canada issue annuity contracts. The relevant importance of annuities in the over-all operations of the companies is indicated by the fact that about 20% of their reserve liabilities in Canada arise out of annuities, mainly deferred annuities on individual and group plans.

A few of the larger Canadian companies have issued group accident and sickness insurance contracts (frequently along with group life insurance contracts and group annuities) for many years. Many other companies have recently entered the field. However, only one Canadian life insurance company as yet is issuing accident and sickness insurance policies to individuals. Life insurance companies now provide hospital and surgical insurance to 2¼ million Canadians, medical insurance to 1.5 million persons, and loss-of-time (weekly indemnity) insurance to over 850,000 workers.

The premium income in Canada of all life insurance companies during 1955 totalled $728 million. Life insurance premiums accounted for $542 million, annuity considerations for $108 million, and accident and sickness premiums for $76 million. These premium payments represented 4% of Canadians' disposable income (personal income after personal direct tax). Benefit payments (excluding accident and sickness) totalled $337 million in 1955. 38% of these payments were for death benefits while the other 62% went to living policyholders for such payments as matured endowments, annuities, disability payments, cash surrender values and policy dividends.

The sound and progressive development of the business in Canada owes much to the federal and provincial insurance legislation and government supervision that has existed in Canada since 1868 when the first federal Insurance Act was passed. The act prohibited any company (except a provincial company) transacting business without a license from the Minister of Finance. As Canadian insurance laws have developed down through the years they have shown the influence of both British and United States legislation. On the one hand, the first insurance companies in Canada were British companies. On the other hand, the general conditions which the companies had to meet in Canada were very similar to those in the United States—territorially, economically and socially. Thus it was probably inevitable that Canadian



legislation should have followed a course of publicity, supervision, regulation and reasonable freedom about midway between the almost complete freedom from legislative interference and restraint as in Great Britain and a great deal of legislative control as in some states in the United States.

In any event life insurance men in Canada acknowledge that government regulation of life insurance in Canada has been a good thing for the business and is entitled to a share of the credit for its excellent record. No policyholder in a Canadian legal reserve life insurance company has ever lost a dollar through non-payment of the amount guaranteed under his policy on death or at maturity since the first Canadian company was established and Canadian policyholders in British and United States companies have been equally well served since 1878.

The global investments of Canadian life insurance companies and the investments in Canada of non-Canadian companies are strictly regulated by law. Non-Canadian companies must maintain assets in Canada at least equal to their liabilities in Canada. The federal insurance acts define certain broad categories of investments in which life insurance funds may be placed, and impose certain additional limitations within some categories. They also define certain investments which are strictly prohibited.

The global assets of Canadian life insurance companies totalled \$6.3 billion at the end of 1955 and were distributed among the principal categories of permissible investments as indicated in the companies' assets graph above.

The asset holdings of the companies are under constant review and an annual report published by the Department of Insurance in Ottawa gives full details of the asset holdings of each federally registered company. At the end of 1955, policy reserves equalled 79.3% of the total assets of Canadian companies and other obligations to policyholders, such as amounts left on deposit at interest and policy dividends payable, accounted for 12.3% of all assets. Special reserves, other liabilities, unassigned surplus and paid-up capital of companies with share capital made up the remaining 8.4% of the total.

The opportunities for a career in the life insurance business in Canada are indicated by directing attention to the background of the leaders in the industry today. Nine out of ten of them, whether in home office or field, "came up from the ranks" within the business. Every corporal within the industry carries a marshal's baton in his knapsack and he doesn't need any cash capital to get to the top.

Continuity and stability, as well as initiative, have usually featured life insurance company management in Canada. Practically all the officers of the Canadian companies have spent their entire working lives in the life insurance business—the great majority with the same company.

The best opportunities to make money are in the field—if you can sell life insurance in large volume. Most life insurance salesmen, or life underwriters, as they are now usually called, are compensated by commission. While the average underwriter's earnings are not high (they naturally vary widely), some of the most successful of them earn very substantial incomes. On the other hand, important executive positions in all departments—actuarial, underwriting, claims, accounting, investment—are open to men and women who are able and prepared to pay the "price of success" in the administrative side of the business.

There has been a great change in life insurance selling since I first became interested in the business. The day of the carpet-bagger, the one-case agent, is gone, and for three principal reasons: 1) competition from full-time competent, career life underwriters; 2) improved methods developed by the companies for the selection and training of their agents; and 3) the influence of the agents' own organization—the Life Underwriters Association of Canada. The companies have learned that only well-trained, competent men can sell life insurance in economical volume today. It costs a lot of money to teach agents the laws and regulations relating to the life insurance contract, succession duties, income taxes, etc. as well as salesmanship, and to train even a good man to a state of reasonable competence.

Selling life insurance requires the right background and aptitude and hard work. There is an old saying in the business that selling life insurance is the best paid hard work in the world.

Of the 32,000 people in the life insurance business in Canada, 12,000 are life underwriters selling life insurance

on commission (or on salary and commission). Another 6,500 are employed in branch offices. The remainder work in the home offices of Canadian companies or the head offices in Canada of British and United States companies.

One of the special opportunities in the life insurance business in Canada arises out of its international character. In many companies there is a chance to work or travel outside of Canada. United States, British and Dutch companies do 30% of the life insurance business in Canada and many Canadians, some of whom got their first jobs here with United States companies, have finished their careers in senior posts in home offices across the line. On the other hand, Canadian companies do over one-third of their business outside of Canada—in the United States, the British Isles, and more than half a hundred other countries around the world. Many Canadians have gone to distant countries and become successful underwriters selling life insurance and managing branch offices for Canadian companies in South Africa, the Philippines, Venezuela and elsewhere. Many others have gone abroad as branch office secretaries or in other administrative capacities. At least one of the Canadian companies has a virtual head office in London, England, where a large staff is employed on all phases of life insurance administration. Many Canadians in Canada are engaged exclusively with work involved in administering the foreign business of their companies.

I have always attributed a large part of the success of Canadian companies to the tradition that the actuary should always be a ranking officer of the company—an actuary who is a Fellow of the Society of Actuaries, the Institute of Actuaries of Great Britain or the Faculty of Actuaries in Scotland. Frequently he is the senior executive. Today the chief executives of 15 of the 32 Canadian companies operating under federal registry are actuaries, and these companies have nearly 60% of all the life insurance in force in such Canadian companies. While I am the first to agree that the expert need not be on top (it is sufficient if he is on tap)—and the actuary is the technical expert of the life insurance business—the fact that it takes from five to seven years of hard night work and study to become an actuary (nowadays usually after obtaining a college degree) means that an actuary has a thorough grounding in every phase of the business.

There are today over 150 qualified actuaries employed by the Canadian companies—more than one-sixth of all the qualified actuaries on this continent. Practically all the officers (except the medical and agency officers) of some Canadian companies are actuaries. If a young man or woman has a flair for mathematics and the temperament for good hard study, he or she should inquire into the possibilities of an actuarial career.

Most of the other careers in the life insurance business parallel those found in other industries—secretaries, statisticians, accountants, medical officers, tax experts, auditors, lawyers, investment men, economists, real estate and mortgage supervisors, etc. Young men and women can learn many of these occupations as they earn. The Life Insurance Institute of Canada provides a four-year course of study in life insurance fundamentals leading to a Fellowship diploma, and "training on the job" is the rule in most departments of a life insurance company in Canada.

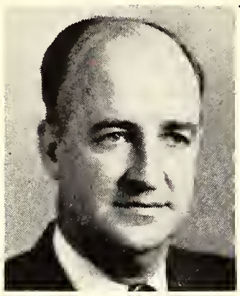
Life insurance has become a major source of personal and family security for most Canadians. Nine Canadian companies have been organized since 1945. Twenty-four United States, British and Dutch companies have entered or re-entered Canada within the last eleven years. The competition for talent is just as keen as the competition for business. If a young man or woman is bright, likes hard work, and is attracted by real job satisfaction and security, the life insurance business in Canada has much to offer.

* * *

REAL ESTATE

INVESTMENT

BY HOWARD HOLDERNESS



President of the Jefferson Standard Life Insurance Company. Mr. Holderness joined Jefferson Standard as a member of the mortgage loan department, and held the vice presidency in charge of investments before becoming president. He is a graduate of the University of North Carolina and Harvard Business School.

AMERICA'S PICTURE of progress is a vast panorama of people, projects, production and prosperity—and under all is the land.

Directly or indirectly, the life insurance industry is helping to set the pace of progress. We are a part of the big picture of busy, progressive America.

We are living in a new day of urban mass development production of more than a million homes a year, convenient mortgage financing for home buyers, improvement of highways, transportation and communications, industrial expansion, new communities, and new ideas, from air-conditioning to air rights.

The insurance broker, the builder, and the architect contribute to this progress by providing homes for individual families. Working hand in hand and shoulder to shoulder with all of these individuals are the life insurance companies through their securities, mortgage loan and real estate personnel.

Horace Greeley once said "Go West Young Man." Today he could say go North, go South, go East, as well as go West, with our rapid expanding economy. Decentralization is taking place right under our noses. Retail business is moving to the suburbs. Big businesses are moving their plants. Airplane manufacturers are moving inland from the West Coast and, cotton is moving West and cattle East.

The year 1955 was a year in which a record level of business activities prevailed in most sections of our country. It is therefore not surprising that life insurance companies experienced a heavy demand for their funds. Mortgages, corporate securities, and other investments of a non-governmental character account for approximately 85% of the assets of the United States life insurance companies.

The assets of all United States life insurance companies as of December 31, 1955 were approximately $91 billion. Holdings of public utility bonds, railroad bonds and industrial and miscellaneous bonds account for approximately 53% of the assets of United States life insurance companies. Residential construction that prevailed during the past year increased the holding of United States life insurance companies in mortgages to approximately $30 billion, or approximately 32% of all life insurance companies, of which residential loans will account for a substantial portion. Real estate holdings, which include home office buildings for life insurance companies, as well as a relatively new type of investment called purchase and leaseback acquisition, amount to approximately $2.6 billion.

It is interesting to note the changes in life insurance investments that have occurred during the period following the end of World War II. In 1945 approximately 46% of the assets of all life insurance companies were invested in government securities, whereas mortgages constituted less than 15% of the assets and corporate bonds stood at about 22.5%. In contrast, today government securities will account for less than 10% of the assets of life insurance companies, whereas, mortgages have increased to approximately 32%, and corporate bonds about 40%.

As already indicated, significant changes have taken place in the pattern of life insurance companies' investments. In the bond market direct negotiations between borrower and lender have become increasingly important, and mortgage lending has particularly undergone a substantial change since the end of the war. The development of FHA-insured and VA mortgages, which are negotiable and have broad secondary markets, have been of major significance to the construction and housing industry. With an FHA or VA commitment the builder or subdivider can assure himself of institutional mortgage financing at high loan-to-value ratios for large scale projects involving hundreds of homes complete with streets, sewers, and shopping centers. Loans for prospective home owners can be closed knowing that the mortgages will be taken up by life insurance companies or some other institutional lender in accordance with previous arrangements. In 1945 virtually no VA loans were held by any life insurance companies, and the total amount of FHA loans held was less than a billion and a half. At the end of 1955 the total FHA and VA loans combined approximately $125 billion.

To cope with this ever changing economic condition, plus the fact that the investment of policyholders' funds with the object of obtaining the maximum return consistent with safety, is one of the major responsibilities and activities of life insurance companies. Life insurance companies are continually seeking employment of young college graduates for positions in their securities, mortgage loan, real estate, and legal departments. A definite shortage of talent in this field exists today. Many, many opportunities thus present themselves to any young man willing to undergo the training necessary to make him an outstanding securities man, mortgage loan analyst, real estate appraiser, escrow officer, purchase and leaseback expert, building manager—and last but not least, there is a dire shortage of legal talent in life insurance companies.

NEW FRONTIERS OF INVESTMENT

BY JAMES J. O'LEARY

Director of Investment Research of the Life Insurance Association of America. Dr. O'Leary has received BA and MA degrees from Wesleyan University and a PhD from Duke University. He has taught economics, most recently at Duke, and in 1946 was the Director of Research for the Committee on Public Debt Policy. He has been with LIAA since 1947.

MORE THAN $50 million of the savings of the American people are channeled into investment each working day by the life insurance companies of the nation. The great task of investing these funds safely but with imagination and vision, challenges the financial officers of the companies. This article describes briefly how life company investments have served to open new frontiers of investment and thus to contribute to the growth of our national economy.

Announcement was made recently by the Tishman Realty & Construction Company that on the site of the block between 52nd and 53rd Streets on the West side of Fifth Avenue in New York City there will soon arise a new office building to be built at a cost of $35 million. Upon completion, it will be purchased as an investment by The Prudential Insurance Company of America and leased on a long-term basis to the Tishman concern. The enormous drain upon our iron resources has dictated the mining of taconite (low-grade iron ore) in the Mesabi Range in Minnesota. The Metropolitan Life Insurance Company has invested $200 million in this project. Since the 30's the building of a great network of transcontinental gas pipelines has brought natural gas from the Southwest to the urban centers. The financing of these pipelines has been almost entirely by life insurance companies, with the Metropolitan alone now holding several hundred million dollars of gas pipeline securities.

Almost everywhere one looks he sees evidence of the basic use of life insurance savings which have been channeled into investment—homes, farms, industrial plants, industrial research centers, railroad equipment, electric utilities, superhighways, trucks, modern office buildings, chain and department stores, shopping centers, service stations, nuclear power plants, oil and gas production facilities, municipal facilities of all kinds, hotels, motels, hospitals, clinics, churches, school dormitories, warehouses—and so many others. Among the most spectacular are the great housing developments such as Peter Cooper Village and Stuyvesant Town built by the Metropolitan in New York City, Fresh Meadows built by New York Life in Flushing and the same company's Lake Meadows in Chicago, and the Metropolitan's Park Labrea in San Francisco, to mention only a few.

Perhaps the most striking characteristic of the American economy throughout our history has been its tremendous capacity for growth. This has never been more pronounced than in recent years. The best measure of our growth is the figure for gross national product, or the value of all goods and services produced, which rose from $209 billion in 1946 to $387 billion in 1955—an increase of 85 percent. Much of this rise reflects, of course, the price inflation we have experienced, but even on a "deflated" basis GNP has still increased about 38 percent from 1946. Further evidence of our remarkable growth, and indeed a primary casual factor, is that business expenditures for new plant and equipment have risen from an annual rate of about $15 billion in 1946 to a rate of $35 billion this year.

What has made this impressive growth possible? The answer is, of course, the willingness of the American people to save—to refrain from using all of their incomes for current consumption. These savings have been employed to pay for industrial plants and equipment, for residential and commercial construction, for public works—for all forms of capital goods.

Everyone connected with the life insurance business is proud of the important role it has played in stimulating the savings of millions of people and in channeling these funds into fruitful investment spending and hence economic growth. As a measure of the importance of this contribution, out of a total increase of over $50 billion in long-term corporate debt from the end of 1945 to the end of 1955, which went to aid in financing business expansion, life insurance companies increased their holdings by about $25 billion, or 50 percent of the total. In the same period life company holdings of nonfarm mortgage debt rose $21 billion out of a total national increase of $91 billion, or about 23 percent of the total. Within nonfarm mortgage debt, life companies expanded their investments in mortgages on one to four-family residential properties by $15.5 billion, or about 22 percent of the total increase of $70 billion in these mortgages.

The challenge to the ingenuity of financial officers in successfully investing life insurance saving is great. Last year the net increase in assets of the several hundred companies in this country amounted to about $6 billion. Taking account not only of net new funds accumulating in life companies, but also of repayment of mortgage loans and other repayments, the "gross flow" of investible funds through life companies is in the neighborhood of $10–12 billion. This money is directed into the economy to the important areas of investment demand as indicated by market forces and with great vision toward encouraging new frontiers of capital spending in our economy.

BROADENING THE INVESTMENT RISK

BY GEORGE T. CONKLIN JR.

Financial Vice President of the Guardian Life Insurance Company of America. Educated at Dartmouth, Columbia, and New York University, Dr. Conklin left Wall Street in 1944 to join Guardian Life. He was appointed adjunct professor of finance at NYU in 1953.

The life insurance industry with over 90 billion dollars in invested assets is not only the largest of the investment institutions but more importantly, it is the most broad-gauged. Unlike most other institutions which concentrate on one or two types of investment, the life insurance industry invests in every known investment medium and has pioneered in the development of new avenues of investment.

This has not always been the case. In the earliest days of life insurance, investments were concentrated in one field — mortgages, which comprised about 90% of invested assets. Gradually, as the industry grew in importance in the economy, additional fields were entered. By the 1920's investments had been broadened to include railroad and public utility bonds which dominated investment until after World War II.

In the last twenty years the active area of life insurance investment has broadened more than in the previous century. It now encompasses the entire field of industrial and commercial bonds which represent the most important single securities investment outlet.

This widened scope of investment is not accidental in nature; it is the inevitable result of numerous factors. In the distant past, with the relative insignificance of insurance funds, the life insurance industry could ignore large fields of investment and concentrate on certain investment areas it considered most attractive. With the substantial growth of life insurance funds in the economy, its ability to do this has become more limited. More and more the investments of the industry have come to mirror the general pattern of the demand of our economy for capital.

In addition to this general pressure there has been the specific pressure of competitive prices within the industry compelling it to seek new outlets for investment. Since the return on a company's invested assets is one of the three principal determinants of the cost of its policies to the public, there is pressure upon life insurance investment management to earn the highest return on its assets consistent with safety.

These pressures have resulted in an alertness and an awareness to new opportunities for investment which offer higher returns than the older more established, and hence usually lower yielding investment outlets. One specific example of this alertness has been the development by the life insurance industry of the entirely new pattern for financing the construction of new natural gas pipe lines, as a result of which natural gas has rapidly become available to consumers throughout the country.

PREDICTABLE ECONOMICS

The life insurance industry is particularly fortunate in that from an investment point of view its economies is probably the strongest of any investing institution. Unlike most institutions the liabilities of life insurance are very long term and are actuarially predictable. Thus, for an average company, an investment made today will not have to be turned into cash for some 20 years or more in the future. In effect, therefore, this means that life insurance companies basically have little or no liquidity needs and can invest and hold for the long term. Even during the drastic depression of the 1930's there was no year in which the life insurance companies did not have a heavy net inflow of cash.

These characteristics of the life insurance industry mean in substance that it is ideally suited from an economic standpoint to invest in any field that it finds attractive, and it can take greater investment risks than most other institutions. The life insurance industry particularly in the past ten to 20 years has been capitalizing on these inherent advantages—one example is the increase in equity investment.

Along with these developments broadening life insurance investment media has come a compelling need for investment analysis of a much broader and deeper type than sufficed in the past. Merely consider the staff demands required by investment in the field of industrial and commercial bonds and stocks—representing hundreds of separate industries requiring study and thousands of companies requiring analysis, and compare it to the past when only railroad analysts and public utility analysts were needed.

And when we take a look at the future, it further serves to emphasize the need for an investment staff second to none. For the future will be the Research Age in industry and this will result in a continued growth of our economy at an even greater rate than in the past. But dynamic research means increasing risk to existing invested capital. This will mean that appraisal of future trends will be more important than ever before in security analysis.

Here, then, at one and the same time is great opportunity and a great challenge. To the broadly trained and really able college man interested in the field of investment, there can scarcely be an opportunity to match that available in the life insurance field for the future.

NUCLEAR PROBLEMS

AND OPPORTUNITIES

BY REUEL C. STRATTON

Assistant Superintendent of the Travelers Insurance Company. Col. Stratton was educated at Trinity College, and joined Travelers after being discharged from the Army. He is now the sole liaison representative between the life insurance industry and the Atomic Energy Commission.

INSURANCE has followed every endeavor of mankind, developing ways and means whereby a man might protect his investment or his interest. Insurance provides a way to ease his legal responsibility. Where there is adequate data available with a reasonable spread of the risk exposure, most forms of coverage are now available within normal limit values.

The ease of availability today of the many forms of insurance which apply to usual industrial activities has produced a feeling that the purchase of an insurance contract is comparable to the purchase of a can of vegetables from a chain store shelf. Such is not the case. Insurance is individually underwritten. The purchaser must qualify to obtain his coverage.

The relationship between an insuring company and the purchaser of the insurance is and must be governed not only by the terms of the insurance policy but by the principles of law applicable to its interpretation. Basically, a policy is a contract. It constitutes a promise by the insurer, in consideration for a premium, to indemnify the insured for losses arising from certain specified events or perils.

Based on this principle it must follow that an insurable interest is a prerequisite to a valid contract. While the agreement may be speculative in a certain sense and while protection may be provided for a comparatively small sum of money, with one party assuming the risk of incurring losses in greater or less amount, yet the contract does carry with it the expectation that the insured will exercise every necessary effort to close the avenues towards known losses. It also carries the expectation that the insured will foresee, in so far as possible and with the assistance of the insurer, possible future exposures and eliminate them. Without the requirement that there must be an insurable interest, an indemnifying contract would be a wager.

Instead of this the payments required as a fee for protection are nowadays based upon the accumulated history of many losses incurred and are carefully calculated from actuarial data taking into consideration not only the probability of a loss but also the possible extent of such losses in total.

THIRD PARTY LIABILITY PROBLEMS

One major part of the present day insurance problem which has been until recently a bottleneck between the nuclear industry and insurance is the exposure under so-called "third party liability." There appears to be little doubt that industry must bear its responsibility for the protection of the persons and the property of those who may be considered as being public risks.

Human experience has shown it to be commonplace that every innovation designed to improve the status of mankind has always been attended by drawbacks which were not foreseen at its commencement.

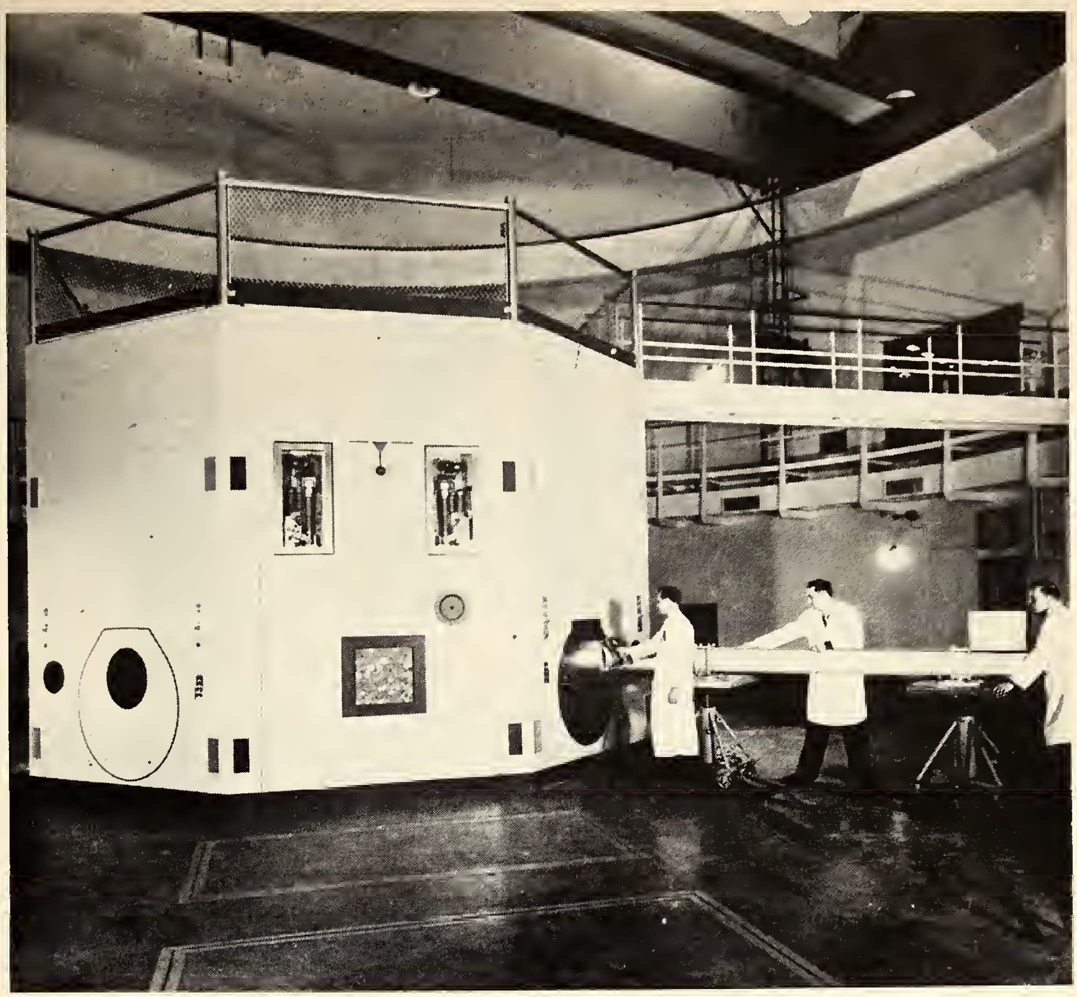
I need not go into the law of negligence as it is known to apply generally, but yet in such application does not prohibit the creation of risks to others. Based upon a prominent legal decision made many years ago the statement was "we think that the true rule of law is that the person who for his own purposes brings on his land and collects and keeps there anything likely to do mischief if it escapes, must keep it at his peril, and if he does not do so, he is prima facie answerable for all of the damages which are the natural consequences of its escape."

Common law decisions of recent date have decided that the precautions required must be appropriate to the risk and that the creation of an unreasonable risk to others is an act of negligence. Here it would appear that the increased hazard from the activity products of a reactor if accidentally or otherwise dispersed would be considered the creation of an unreasonable risk for which the owner or operator would be held responsible and liable for losses encountered. Even if the operator takes all reasonable precaution to avoid harm to others, it has been ruled that the operator of a particularly socially desirable enterprise which in itself contains the possibility to do harm, must assume the peril of making good any anticipated loss if it actually materializes.

Acknowledgment of the seriousness of the exposure has created a demand within industry for quantities of insurance heretofore unknown and, in fact, beyond the capacity of the insurance industry. While it is admitted that all usual and normal operations connected with nuclear reactors can probably be satisfactorily handled, yet the foreseeable substantial magnitude of possible loss which may be developed from reactor installations requires that the insurance industry proceed slowly. As of this date there has been no statistical experience developed to indicate to any degree of satisfaction either the possibility or the probability of a catastrophe. Few are so bumptious as to prophesy that a severe episode with a nuclear reactor cannot happen. Few, if any, will attempt to estimate the probability. It must be admitted that to date no episode of

Technicians are replacing a shield plug in the Atomic Energy Commission's newest research reactor at Argonne National Laboratory. The scientists believe that the reactor is sufficiently controlled. However, the high temperatures and radioactive products that might result if the reactor "ran away" necessitate the insuring of all personnel.

Argonne National Laboratory



any great magnitude has occurred. Because of this lack of experience, rate making becomes difficult. The insurance industry must be prepared to face the fact that some persons exposed to radiation may not show evidence of the exposure for years. This, then, introduces the question of deferred liability. This is extremely bothersome under compensation laws, particularly when all of the employees at a reactor installation may be exposed to a single fatal event. This is most unusual in present day industry. To be sure a major episode would endanger employees in neighboring plants who then might be questionable as to whether or not they would be compensation or liability cases.

DAMAGE POTENTIAL

Present day nuclear energy technology has created a potential for widespread damage with consequent enormous monetary losses requiring the insurance industry to assist in a program to minimize unsafe conditions and to develop standards for design, installation, inspection and maintenance. To this latter there is afforded opportunities for progress.

Wherein does this description of insurance and nuclear energy bespeak opportunity? The insurance industry is no different than any other in the present day shortage of technically trained personnel. Unfortunately, the insurance industry needs personnel experienced as well as technically trained.

While the use of radioisotopes and other similar materials has been accepted in general usage yet every reactor installation must be evaluated upon its own particular characteristics. Nuclear engineers are required to study the basic fundamental characteristics and design. Mechanical engineers must survey the control systems to determine versatility and margin of control. Electrical engineers familiar with electronics must be available to determine the responsiveness and reliability of all instrumentation. Safety Engineers must review the protection of personnel and equipment against radiation effects, and determine if the safety factors are inherent or built into the machine. Business administration graduates must review personnel, training and educational programs together with operating procedures and so on. There is an opportunity for mathematicians and statistitions to develop adequate actuarial data within this new industry. Underwriters familiar with such exposures must be developed and these may be drawn from the newly graduated. Civil engineers will be utilized to determine whether the site selection is proper and to study the seismology, meteorology and hydrology characteristics of the area.

Obviously, last but by all means not least, there still remains the opportunity for those who are interested in sales. The impact of nuclear energy upon industry in general has opened a new field for those who choose to become familiar with it and to become competent in determining the needs for the industries engaged within its areas. The graduate in law will find many legal areas requiring his study not only in contractual relationships but also in the determination of decisions without previous history. The use of radioisotopes and nuclear energy in medicine has created a new field which in many ways is so far untouched. It remains for medical science to determine whether nuclear energy is a benefit or a detriment to our civilization.

Many of us associated with nuclear energy today will never see the benefits which will accrue from this new industry. Today's horizon is a Shangri-La for the recent graduate. There is an opportunity.

THE GROWTH OF

ACCIDENT & SICKNESS

BY V. J. SKUTT

President of the Mutual Benefit Health and Accident Association. After receiving his law degree from Creighton University, Mr. Skutt began selling insurance for Equitable of New York. In 1924, he joined the Legal Department of Mutual Benefit and advanced to the presidency in 1949.

It is truly said our health is our wealth. Helping fellow Americans to realize this can lead to a wonderful public service career coupled with a very comfortable monetary return. In the next ten minutes, during which you could carefully read all of this story, more than 350 people will become hospitalized; more than 2,460 will become disabled from sickness or injury; and many of them will be disabled for life. Someday — perhaps tomorrow — it could happen to you—to anyone.

From the beginning of time mankind has struggled unceasingly for security. That struggle has brought into play man's finest instincts and desires and its greatest achievements have resulted when men worked together. No chapter in the history of this struggle has been more inspiring than the tremendous growth of health and accident insurance. It is one of the greatest examples of cooperative effort in recorded history, and in such insurance man has found his most powerful weapon against insecurity. Our company is proud of the part it has played in this fight for economic independence.

All young men in college today should take a look at personal insurance as a business career. The very pages of this booklet reflect successful career histories of many insurance executives who should certainly serve as inspiration and proof of opportunity. In health and accident insurance you can have a career in the most rapidly expanding and dynamic segment of the industry. You will participate in an industry that is marketing peace of mind and relief from financial burdens. Can anyone imagine less than an eternal demand?

Health and accident insurance has developed into a whole family of coverages including hospital, surgical, loss of time or income replacement, specific indemnities and our modern major medical policies.

It is not our purpose here to trace the dim beginnings of early isolated health and accident coverages, but rather to mark the spot when real development began, why it did not begin sooner, and serious initial obstacles that had to be overcome.

Such insurance is largely a product of western democracy as we now know it. A man's voluntary protection for his family is a healthy individualistic expression of his higher nature and inborn desire for self-sufficiency, as opposed to the rank suppression and complete dependence that existed and still exists under totalitarian regimes.

Basically, man is a gregarious person. Even early in history he began to associate and work together in concert. It was natural from all these things in living and worshipping together to extend such association to economics to help one another in the event of accident or illness. The growth of economics from simple natural farming to a complex science caused a need for such insurance, its economic counterpart.

As our economy and standard of living have grown, so also have our interdependence upon each other and the cost of essential services we need when income is suspended. We owe an immeasurable amount of our progress to accident and health and other personal insurance; were it not for the assurance it gives, much initiative of the venturesome would be stifled. Were we to save the money we may need in the future, the vast majority of us would not enjoy nearly as much as we have now. At best, only a minority of us would have the automobiles, homes and major appliances we currently enjoy if unobligated cash were necessary at time of purchase.

Insurance authorities tell us that in the scale of insurance, our number one concern should be permanent disability coverage, and then death, auto liability, and personal liability in that order. Obviously, without such disability insurance, a policyholder may not be able to pay premiums on any other type of insurance when illness or injury strike.

Let us examine further this child of the industry which has been born of progress, the industrial revolution, freedom and democracy. There is more to the health and accident insurance business than obtaining a signature on an application and collecting and paying out money. To conduct insurance successfully there must be some knowledge of what will happen to a certain group of risks. Naturally the more knowledge, the more accurate the rate to be charged and the more stable the industry.

This knowledge coupled with the uncertainty of what will happen to anyone of this group of risks forms the basis for such insurance. The lack of such information very naturally made issuance of health and accident coverages extremely risky and bona fide companies approached such coverages cautiously. Even with the very best of such data, certain other individuals, institutions and moral factors represented by the hospital, doctor, and policyowner or patient himself are very influential.

Small wonder then that even accident insurance is of comparatively recent development. There had been a

reasonable number of accident insurance experiments in Europe dating back to the activities of the sixteenth century North European trading and seafaring communities, but the first successful accident insurance activities in this country began in 1897 and were patterned after English companies that wrote railway travel accident policies in the 1850's. Sickness, or health insurance as it is more popularly termed, was born with the twentieth century. From then until the present day, as knowledge and experience have encouraged our footsteps, coverages have been expanded to include a vast multitude of health contingencies; indeed, the development has been refined to the point of tailoring insurance coverage to fit the individual. Such progress in coverage is exemplified by the guaranteed-renewable policies developed shortly after 1900 and the hospital, medical and surgical reimbursement coverages developed in the 1930's and early 1940's. More than one thousand companies writing health and accident insurance are now concentrating on bringing coverages to a broader section of the public, particularly the older group, and to extend renewal guarantees on all policies as far as possible.

The applicant for personal insurance now has a truly remarkable storehouse of insurance features available from which, with the help of a good representative, he can select the coverages which best fit the needs of his dependents and himself as a free American.

Some of the many features of coverage which further indicate flexibility and growing maturity include special risks, guaranteed renewable contracts, grace periods, coinsurance, waiting periods, deductible, confining or non-confining features and special schedules.

The healthy competition that exists within the industry is producing ever more applicable types of coverage. No doubt, too, the periodic attempts to inaugurate a nationalized health insurance program have spurred certain developments which may otherwise have been approached more cautiously and with a bit more research. In that respect the number of firms following us into expanded use of electronics for record keeping and research is very encouraging. Voluntary health insurance must overlook nothing that will help us expand both in terms of people covered and in terms of benefits offered.

We have so far presented a synopsis of the development of health and accident insurance and suggested the excellent career prospects from a materialistic viewpoint. The public service opportunities of the industry are wonderfully satisfying to those who have already helped bring security and peace of mind to millions of fellow Americans.

The work being done by leading health and accident organizations in eliminating financial worries when life seems darkest has been aptly described as "one of the pillars of freedom in America's democratic way of life." Here is a potential combination of salesmanship and public service at its greatest. The opportunities for real salesmen are unparalleled. Our expanding needs and growing population assure us that this market will never be saturated. Even prudent Americans do not buy insurance; they must be sold. They expect to be asked to purchase any product today. Nowhere else does there exist such opportunity with no capital requirement necessary other than your ability and desire to bring this form of security to the free people of our nation.

Successful careers in our industry are not confined to insurance as such. Tremendous reserves must be wisely and safely invested. Advertising campaigns require folks highly talented in publicizing our services; actuaries must calculate correct premiums and explore new coverages; and there is a constant demand for management executives because, after all, service is our most important product.

So, perhaps as a future insurance executive, you may never play a direct major part in the production of a train, an auto, a modern home or a skyscraper. However, the peace of mind and security which your services in the health and accident industry provide may well be what makes ownership of these things possible, and, as such, certainly no less important.

We mentioned in passing the possibilities of an investment career in insurance. If you have a life or a health and accident insurance policy, you are an owner and an investor in your country and its future. We sometimes forget that the millions of dollars in assets serving to protect policyowners and their families also serve to help the nation increase its standard of living. Insurance money has financed thousands of new homes; has helped cities all over the nation build schools, streets, bridges, airports, parks, libraries, fire stations, and even jails. Insurance money is helping to develop and produce practically every kind of product we use—food, chemicals, oil, drugs, shoes, automobiles, steel, paper, tobacco, clothing, tires, machines—and to finance an impressive number of public utilities in this country.

As in the case of any other industry of exceptional growth, there is likely to be an area somewhat overlooked.

The public relations of the health and accident industry have not kept up with its other remarkable development. Recent unusual publicity concerning insurance complaints pointed up the need for developing public relations. Promoters of socialized insurance and medicine can always be expected to capitalize on such publicity. Widespread lack of knowledge on the part of the public, some legislatures and even some portions of the newspaper and magazine press forces unnecessary problems upon the industry today. Individual members of the industry and trade associations, such as the Health Insurance Association of America, have undertaken much to counteract recent articles which, it is feared, could be very widely misinterpreted. We are proud to say that over 15 million health and accident claims are paid each year and of these, over 99.8% are paid without complaint.

We can very possibly expect larger and more generous governmental insurance developments until the inevitable cost annoys the public more than it pleases the beneficiaries. The current insurance activities of the government are not in themselves too encroaching upon the industry, but are dangerous mainly from being an opening wedge. However, with over 105 million Americans having some form of voluntary health insurance and that coverage being steadily extended both as to degree of protection and number of people enrolled, we see continued great acceptance by the public of financial responsibility for health care.

Ours is a dynamic new industry, so youthful that its effective regulation has come about only in the last several decades. The system of state regulation and examination that has evolved is doing an excellent job of protecting the public interest. Recent attempts at encroachment on state jurisdiction by various agencies and arms of the federal government appear uncalled for. One would much prefer, for example, that the quality of our defense or foreign policy not be diluted by the diversion of the time and talents of our federal servants into spheres better served at a state level.

Assuming that we will retain our individuality and not sink into a complete welfare state, a logical dividing line between public and private health care is at that point where the individual lacks the financial means of supplying through insurance medical care and economic assistance while ill, for himself and his dependents.

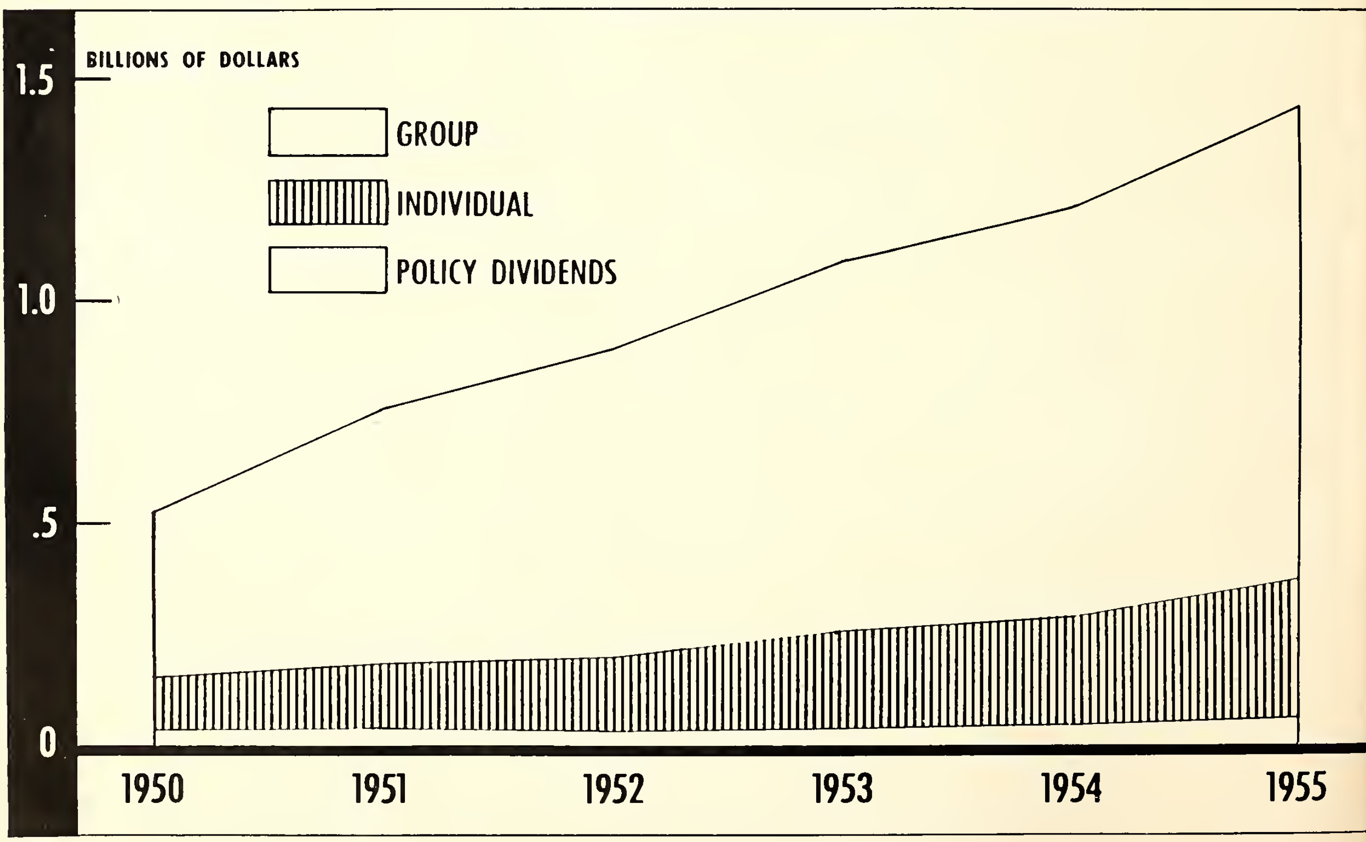
In this respect we would do well here to call attention to the fact that there seems to be some confusion among the proponents of public insurance as to where real insurance of financially able and physically capable people ends and public assistance begins. Obviously the latter is outside the pale of insurance. We have no quarrel with honest public service to those who fall within the realm of public care. We do, however, question the ethics of those who recklessly promulgate a public insurance program actuarially bankrupt from its inception. Social insurance overdone is a departure from the American way.

As the industry accumulates more extensive experience, wider, more liberal coverages are being made available to a broader group of people. Free competitive insurance will arrive at the maximum of effectiveness in a far more palatable and actuarially sound basis than hastily conceived, wholesale legislation.

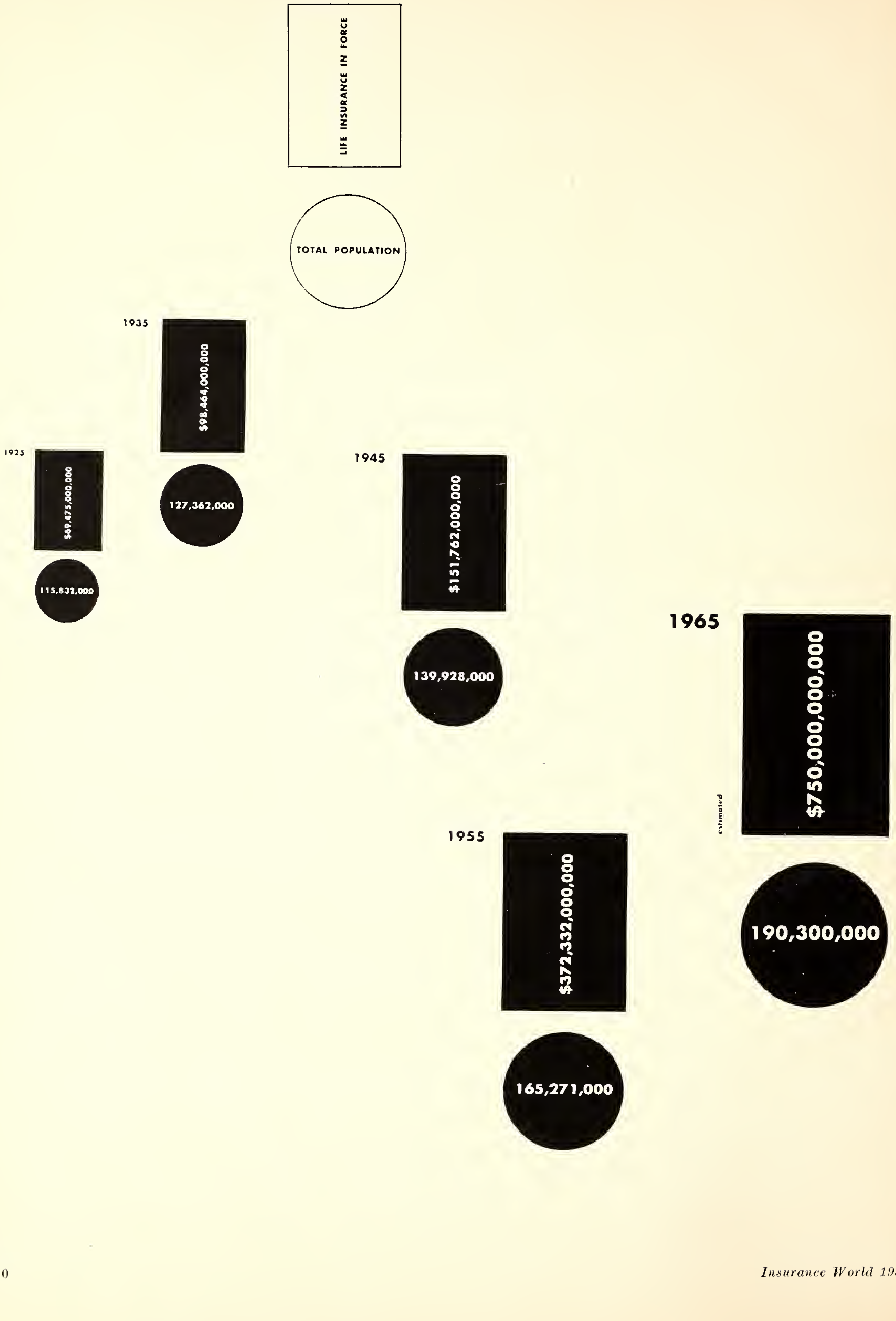
Health and accident insurance has developed freely over the years and it is only because it was free that it has developed. It has grown to be of such personal importance to every American that its proper handling is one of the great professions.

We of the fastest growing segment of the insurance industry wish you a highly successful career.

ACCIDENT AND HEALTH BENEFITS PAID IN THE U. S. BY LIFE COMPANIES



PART IV PROTECTING FAMILY AND BUSINESS


LIFE INSURANCE IN FORCE
TOTAL POPULATION
1925
$69,475,000,000
115,832,000
1935
$98,464,000,000
127,362,000
1945
$151,762,000,000
139,928,000
1955
$372,332,000,000
165,271,000
1965
estimated
$750,000,000,000
190,300,000

BASIC FAMILY PROTECTION

BY ASA V. CALL

President of the Pacific Mutual Life Insurance Company. Mr. Call left his position as senior member of the law firm, Call & Murphy to join the legal department of Pacific Mutual in 1933. He is a graduate of the University of Southern California and the law school there.

THE ORIGINAL purpose of life insurance was purely family protection and today, in spite of the variety of uses to which insurance can now be put, the majority of policies are still written with that purpose in mind.

In fact many of these modern uses are really just new ways of protecting the family. Accident and sickness insurance protects against a sudden unavoidable financial blow. Retirement income insurance extends family protection into a new "time zone." Even business insurance is protection for the family of the man who owns all or part of a business.

However, there are certain insurance plans which are considered to be basic means of protecting the family. There are four of them: whole life, limited payment life, endowment, and term insurance.

Term insurance, for instance, is best suited for certain temporary protection needs. It is generally used for business insurance, mortgage protection and creditor's insurance. Term insurance is a low cost form which does not have cash values and provides coverage only for a specified number of years.

Whole life insurance, which means a policy with the same premium payment each year during the life of the insured, is perhaps the most versatile of all plans because it can perform many different protection functions. During the life of the policy substantial cash values are built up which are available as a loan to the insured.

Limited payment life, which concentrates payments within specified number of years (10, 15, or 20 usually), is best suited to individuals who have a relatively high income at the time of purchase and anticipate reduced income later. The premium of course is higher for this form than for whole life, but the cash value builds up faster.

Endowment insurance establishes a principal sum through savings during a specified number of years and yet provides life insurance protection of the policy's face amount during the entire period. Obviously this plan best suits those who wish to save a large sum for use at a future time—perhaps for the education of children or perhaps for use during the retirement period. The annual premium on endowment insurance is higher than on any of the other three forms, but the cash value builds faster until it reaches the face amount at maturity.

Each plan has its advantages in achieving certain goals, so combinations of these basic protection plans have been devised to fit modern needs. For instance, a young man with limited income and several children may need more protection for his family than he can afford to buy on the whole life plan. The insurance industry solves his problem with a plan which begins with term insurance for maximum temporary protection at moderate cost and then is convertible some years later into the more permanent whole life form.

Retirement income insurance uses the proceeds of an endowment policy to purchase an annuity paying monthly income to the insured beginning at a specified age. These are only two of the ways the four basic protections can be combined. There are many other combinations for specific purposes. Because there are so many of these combinations available now it is essential that the life insurance buyer have the advice of a competent career underwriter.

To this professional, each potential buyer is an individual with his own peculiar problems and needs. He has no blanket solution which fits every man. On the contrary he is a trained expert whose whole career is based on the exact and careful designing of insurance protection to fit individual problems.

The day of the old-fashioned insurance "agent" is gone. Our industry does not welcome and does not have a place for high pressure promoters or "fast buck" artists. We do not want men who put the fast sale ahead of the right sale. Today's career underwriter is an advisor, a counsellor, and a friend to his clients. Without this confidential relationship the full benefits that life insurance can provide will never be realized.

What are these full benefits? The fact is that today a man can provide against the hazard of his own death and be sure of continuing income for his family, money to educate his children, money to pay debts he may leave, money to pay inheritance taxes and even money to liquidate his share of a partnership. During his lifetime he can provide for continuing income for his family if he is disabled and for protection against the expenses of accident and sickness; he can plan ahead for money to educate his children; and he can provide for retirement income for himself.

Part of the flexibility of today's life insurance protection lies in the various "settlement options" available for the beneficiaries of policies. Originally the proceeds of policies were paid on a lump sum basis and these sums were more or less well managed according to the ability of the beneficiary. Now insurance companies pay the proceeds in several different ways. The amount may be left with the company and the beneficiary receive the interest as in-

come until the principal is withdrawn.

Another option would be payment in equal periodic installments until the proceeds are used up with interest paid on the decreasing balance. Still another would be stipulated income payments for a certain number of years. And another would be a life income for the beneficiary. Since this in effect is the purchase of an annuity with the policy proceeds, the amount of the income would depend on the beneficiary's age. Any of these options can be combined with a partial lump sum payment to take care of extraordinary expenses at the time the insured dies.

Today's life insurance is also flexible enough to meet changed conditions with changed coverage. Most policies can be revised to fit a new financial status of the insured. The needs of each family will vary according to size, the ages of the parents and children, the total income, their present savings, their talents, and their future hopes and ambitions.

Since in buying insurance, even with the guidance of a career underwriter, the individual must exercise his free choice and judgment, is it likely that a family will buy too much?

It is true that at present perhaps only one family in a hundred is adequately insured, in the sense that if earned income stopped tomorrow, they could maintain a similar standard of living. But the insurance industry as a whole guards against anyone buying "too much" insurance in another sense —more than he can afford to pay for. The industry has a positive reason for this attitude and it results in real protection for the buyer. An individual who buys more than he can afford will very soon let his policy lapse and that's an expensive procedure for the company. If a policy lapses during the first few years of its existence, the company will have a net loss on the transaction. Consequently every application must be reviewed in relation to the person's financial health as well as his physical health.

We are always prepared for change. Even though we deal in long term probabilities, we are extremely sensitive to shifts in human needs. The increase in demand for higher education, the changing cost of medical care, the rising standard of living—these trends of today mean changes in human needs.

Keeping up with these new needs, finding ways to satisfy them, means an industry that is dynamic and growing. The personal satisfaction that comes from participation in this process is enormous. In the past it has attracted men of great ability, and in this college generation we are looking for their equal.

* * *

An Institutional Message To College Men

Want a career?
You might well find it in Life insurance!

THE modern Life insurance company is like a lively miniature of the American business world. Just about every modern development of business today is put in use, or studied in one way or another in Life insurance.

Elsewhere in these pages you will find articles dealing with the many phases of Life insurance—actuarial, underwriting, legal, investments, sales, medical and a great many others.

▶ For instance, one of the major developing functions now is business engineering and management consulting. You will find many openings in the insurance business for this fascinating type of work.

How about advertising, public relations, sales promotion? Yes, indeed, Life insurance today uses every up-to-date method of helping Americans to benefit from the maximum use of the services of the institution of Life insurance. Young men with creative talents always find a welcome.

▶ In fact, there is room in Life insurance for accountants, for real estate appraisers, for engineers, for chemists . . . the list could go on and on.

Whatever field you plan to enter, there may be an opportunity for you in Life insurance. If you like to tackle ever-changing problems or situations . . . if you like people and have the ability to get along with them . . . if you want an open field in which you will find ample scope for your efforts . . .

▶ Look to Life insurance first for a satisfying career. It also offers intangibles that are richly rewarding—the conviction that one's work is worth while, that it contributes to the common good . . . the knowledge that the hopes and ambitions of one's fellow-men are thereby advanced . . . and the realization that one's efforts help make another's dreams come true.

GROUP INSURANCE

AND ANNUITIES

BY RAY D. MURPHY

Chairman of the Board of the Equitable Life Assurance Society of the United States. Mr. Murphy joined Equitable as an assistant actuary in 1913. He was elected president in 1953 and chairman in 1956. A graduate of Harvard, he is also a Fellow of the Society of Actuaries.

GROUP INSURANCE and group annuities are 20th century developments. Born in response to the needs and forces of an industrial age, they reflect more strongly than other forms of insurance the mass production techniques of our times.

Once humorously traced to an insurance transaction of 1854 which guaranteed the safe shipment of coolies from China to Panama, the group way of insuring is recognized today as a major resource of private enterprise in meeting the social and manpower problems of industry. It seems virtually impossible to overestimate the significance of group protection, for although it is essentially a shield for the individual and his family, its benefits have filtered outward to affect the social and economic stability of community, state, and nation as well.

As our nation's geographical frontiers vanished, as industrialization brought forth the factory with its fluctuating labor force, as mechanization replaced personal skills, we faced new frontiers—economic frontiers. In the transition from an agrarian to an industrial economy the stability of more and more American families came to depend upon the paycheck earned in industry. The interruption or cessation of those paychecks due to illness, injury, old age, or death meant economic hardship or disaster.

The need for some form of "paycheck protection" against such hazards was recognized by forward-looking employers. As a result, through the concerted action of management and insurers, group insurance was developed. The first life insurance policy on a group basis was written in 1911. Providing a year's pay upon the death of an employee, the policy stemmed directly from an inquiry from the executives of the Chicago mail order house of Montgomery Ward.

Concern over the economic helplessness and instability of the industrial family in the face of death, accident or prolonged illness had prompted that company to institute an employees' welfare benefit society in 1901. The experiment, however, had not proved successful, for scarcely 25 percent of employees had subscribed to the plan, and the system had to be supported continually by special assessment.

In this so-called "pass-the-hat" era Montgomery Ward sought the aid of insurers in the sound administration of the type of program they envisioned —a blanket coverage which would provide employees with significant amounts of life insurance. As a result of negotiations, a group life insurance plan was worked out.

From this modest start, the story of group insurance has been one of constantly widening horizons. As forward-looking employers took the initiative in sponsoring this form of protection for their staffs, the movement grew. By 1920 group life insurance in force in the United States had reached $1.6 billion; more than 1.7 million workers were covered for group life for an average of $960.

Also by 1920, the modern group weekly indemnity policies had appeared. Cast in the same practical mould as group life, this low cost form of protection provides employees with partial replacement of wages lost during periods of temporary disability not covered under workmen's compensation laws. About the same time, group accidental death and dismemberment insurance was written to furnish additional funds to help meet the heavy expenses that usually follow death by accident, or physical impairment.

Further application of the group idea came about in the late 20's. In that era of expanded credit, the conception of insuring workers in groups was adapted to a new category of individuals: groups of debtors. Termed group creditors insurance, it extended temporary life insurance protection in amounts sufficient to cancel individual indebtedness in the event of death of borrowers from financial institutions and of individuals who purchased merchandise or other property on an instalment basis. Held back in the 30's by economic depression, and during World War II by curbs on installment credit, this phase of underwriting developed slowly. Within the past decade, however, this "insurance for the life of a loan" has gained new importance as a fundamental in the stability and economic security of many postwar families.

The economic consequences of death, illness and injury are serious enough for the industrial worker and his family. Not so immediate, but serious in its economic and psychological implications, is the problem of old age security. To help meet it, another group development of the 20's was the entrance of insurance companies into the field of pensions for employees. The new development, known as the group annuity plan, provides an orderly, actuarially sound means of assuring pensions by laying aside the necessary funds during active employment years. Concern for the older worker came into nationwide focus during the depression years of the 1930's, culminating in the passage of the Federal Social Security Act in 1935. However, that Act established only a floor of subsistence protection for the retired worker, and it widely stimulated management to provide additional pensions through group

annuities for their employees.

Also, the depression era emphasized the need for a program to help the American family budget a regular portion of income to cover potential medical expenses. This need became particularly emphatic because at about the same time, advances in medical and hospital technology and increasing overhead began to add significantly to the cost of health care. In response, group insurance again expanded its services, and during the course of the 30's, group hospital and surgical expense insurance were developed for the employee and later extended to his family dependents. Additional forms of insurance, covering physician's charges and diagnostic tests, were added in the 1940's.

In 1950 there occurred a most significant step in the introduction of Major Medical Expense Insurance, designed to provide important protection against the more costly illnesses. Although still experimental, it is immensely attractive and should prove highly effective in meeting our country's troublesome problem of financing health care.

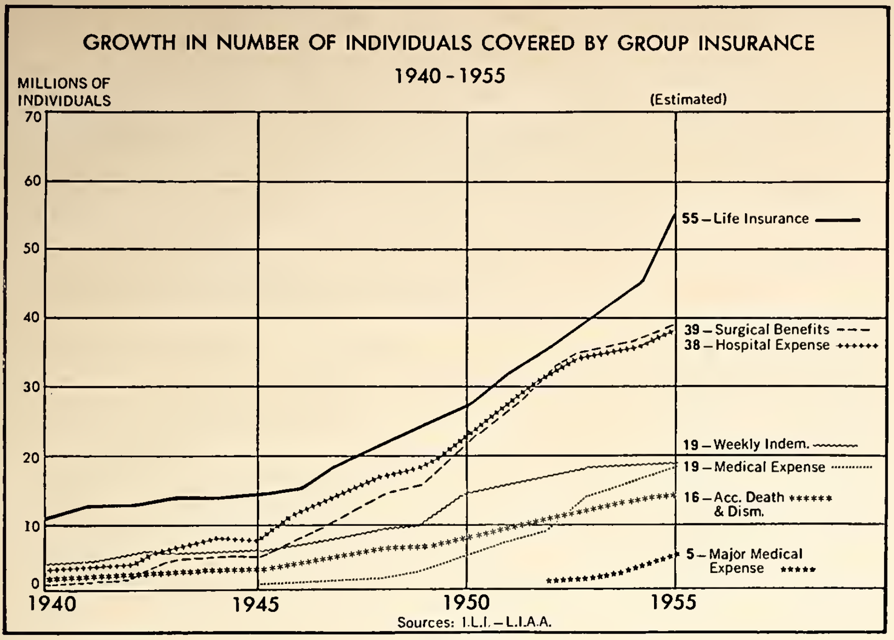
Through the years successive liberalizations in initial group insurance requirements contributed to the growth of the group movement. In the beginning, the minimum group considered for insurance was 100 lives, the theory being that a substantial number was needed to produce a satisfactory averaging of health and a sound group risk. As the business grew and satisfactory experience continued, the requirement was reduced to 50 lives. It was further reduced in the middle 40's to 25 lives. Now group plans are being written generally for groups of ten, and by some insurers for firms having fewer than ten employees, although as the number of insured lives gets very small some inquiries may have to be made concerning the physical condition of individuals.

An important factor in the widened scope of group protection was the application of collective bargaining to employee welfare plans, a movement which began to assume importance in the industrial management field during World War II. With salaries frozen by the government's wage stabilization program, fringe benefits became issues of employee demand in collective bargaining agreements. Since that time a great many group plans have been union-negotiated. Some are written in the form of trusteed plans, with trustees chosen jointly by the union and employer assuming the role of policyholder. Some provide a single insurance plan for all employees represented by one union in an industry or throughout an entire area.

The master policy or contract is written either with the employer paying all, or with those covered paying part, of the premium. Under employee contributory group plans, at least 75 percent of eligible employees must accept the plan by giving the employer written authority to make the necessary payroll deduction for their share of the premium before the group insurance contract can take effect. The policyholder is responsible for the primary administration of the plan, the collection of employee contributions, if any, and payment of total premium to the insurer. As experience warrants, the policyholder receives dividends which in effect constitute a return of that part of the premium which is not needed by the insurer to meet claims, expenses and reserves.

Amounts of insurance for each individual are determined by some rule, such as according to amount of salary or occupational classification or length of service, although for some forms of health insurance the same level of benefits is usually provided for all persons covered.

The technical basis of most group insurance is relatively simple. For instance, group life insurance is basically in the form of one-year term insurance. Thus it avoids the complications of reserves and cash values accumulations, and related investment functions, found in individual level pre-



mium life insurance. The same basis is used for the other kinds of group coverages, except for group annuities and for a relatively few life insurance plans written with level or single premiums. Generally speaking, the term insurance basis is practical for groups because they enjoy a more or less continuous flow of new, young additions which prevent the cost from becoming an increasing burden to the degree that it would do for individual one-year term insurance.

This simplicity of structure helps make for low cost. Furthermore, inexpensive methods of marketing and general administration are greatly facilitated by the bulk handling of the insurance in each group. Cooperation between an employer and the insurance company makes possible a remarkably efficient operation.

Another salient feature of group insurance that not only helps reduce its cost of administration but adds important social value, is that it is effected without requiring medical examination or other specific evidence of the individual's health. Regarded as a somewhat doubtful innovation originally, this waiver of evidence of insurability —and the consequent acceptance of some impaired risks—has proved sound and practical. It rests on the fact that if groups of people are formed for purposes having nothing to do with insurance, and, especially if the individuals are in active employment, the average of the risks will be satisfactory and commensurate with a reasonable premium structure.

This characteristic of structural and administrative simplicity does not result, however, in a completely uncomplicated life for insurance personnel. In fact, the ramifications of group insurance, and the many uses to which it has been applied, have complicated it far beyond early dreams. As a major example, the extension of the mechanism to provide several forms of health insurance, and even life insurance, for the members of the families of employees, added many problems. At the same time, this extension and many others importantly multiplied the purposes and virtues of group insurance.

Interestingly, records of the New York Surrogates Office as reported about 40 years ago show that 85.3% of adult males left no estate at death. Other records of the same era indicate that 35% of widows were in want while 90% lacked common comforts, and that nearly 50% of children left school in order to work before completing the eighth grade. Comparable current statistics show that 86% of families carry some form of life insurance; nearly three-fifths of all widows maintain their own households, with the proportion as high as 70% among those in the age range 45–54; approximately 87% of children between the ages of 14 and 17 are enrolled in schools today.

Many factors have wrought these changes in our social and economic structures and the status of the American family. Among these, wielding its influence, has been group protection, a living example of how people can work together for the common end of greater human development.

As illustrated in Chart I, at the end of 1955 group life insurance in force had risen to an estimated total of \$113.6 billion, of which \$12.3 billion covered creditors. Excluding the creditors' insurance, approximately 32 million people were insured for an average of nearly \$3,200—a far cry from the \$960 average of 35 years ago.

Group annuities in force at the beginning of this year covered 3,360,000 persons under 4,750 master contracts and accounted for nine billion dollars of the pension reserves now carried by the life insurance companies.

Also spectacular has been the growth in the various lines of group health insurance.

During 1955 group death payments of more than \$591.4 million represented cash available when needed most urgently—to help provide the needs of life and keep family units intact at a particularly critical time.

Also reflecting the tremendous social and economic value of group protection are the \$1.3 billion in claim payments last year registered in the group health insurance lines. As benefit dollars, these payments helped many employees meet the financial emergencies brought about by loss of earning power due to illness or accident and helped pay living expenses geared to a typical paycheck budget. For countless individuals, they represented a means of securing necessary medical attention in the early stages of illness, of coping with the expenses of hospital, surgical and prolonged medical care without undue strain on family savings.

During 1955 more than \$162.9 million were paid under Group Annuity contracts, ample evidence of management's and insurers' mutual recognition of the financial requirements of the retired employee.

But outstanding as the service of group protection has been, we within the industry see many areas of human need still inadequately protected. For example, there is still much more important work to be done in the field of health and medical care insurance. Also, the problem of adequate funds for retirement years is destined to become of increasing national importance as the average life span steadily lengthens. Bureau of Census estimates indicate that by 1975 the number of people aged 65 and over will rise to 20.7 million, some 10% of the total population. Helping individuals meet the financial requirements of old age is an important task we face.

For the youth of today, there is great opportunity in a career in the group insurance field. Planning the insurance protection of countless American families is a particularly rewarding service. It is one field in which the individual can advance his own career and at the same time help to make the life of a great many other individuals more secure under the American system of private enterprise. Firmly linked with American progress and the betterment of the social order, group protection offers opportunity and challenge to young people today.

BUSINESS

LIFE INSURANCE

BY LELAND J. KALMBACH

President of the Massachusetts Mutual Life Insurance Company. Mr. Kalmbach, a fellow of the Society of Actuaries, graduated from the University of Michigan. Most of his career (1924 to 1947) has been with Lincoln National, but in 1948 he joined Massachusetts Mutual, becoming president of that firm in 1950.

Life insurance was developed originally to provide financial protection for the family against the consequences of the untimely death of the income producer. As the advantages of the life insurance contract became more widely recognized, the annuity benefit was added to meet the need of the retired person for life income, and disability features were incorporated to protect the family against the hazards of so-called economic death. Thus, historically, life insurance was built around the needs of the family.

It was only a short step from this use of life insurance to its use in any situation where financial loss would result from the death of an individual. The typical business enterprise depends heavily upon the continued guidance of one or more individuals for financial success and, thus, is a natural market for life insurance. This use of life insurance has developed greatly during the past decade or so and is continuing at a rapid rate with the growth in size and number of business concerns and the increasing awareness of the adaptability of life insurance to business needs. These needs are particularly well defined in the case of closely held corporations, partnerships, and sole-proprietorships.

Perhaps the most obvious financial loss faced by business is that resulting from the death of a key employee. There can be no question but that the dominant factor in the expansion of our business economy is the human factor. The natural resources, labor supply, and capital equipment are inert until combined under the direction of men with the imagination, skill, and driving force to produce and market a product that fulfills a human need. When a man such as this becomes identified with a business and its operation, it is difficult to determine his value in dollars and cents, but financial loss would certainly follow his removal from the business. A more measurable loss would result from the destruction of the plant, equipment or inventory of the business, and casualty insurance is almost invariably used to indemnify for such a loss. The loss of the directing genius of the human factor, however, can be much more serious. It is only logical for the business to indemnify itself against this loss by insuring the life of the key man who is responsible for its financial success.

The closely held corporation presents additional problems which require careful financial planning. Although the legal structure of the corporation is such that its existence is not affected by the death of a stockholder, the closely held corporation usually has a management structure made up of the stockholders themselves. Any change in this management structure will disrupt the harmonious relationship that has been responsible for the success of the business. The stock of an owner who dies passes to his executor or administrator for ultimate disposition to other interests—usually his family. Many times there is a conflict between the objectives of the deceased owner's family and those of the surviving original owners, and internal pressures are built up in place of the teamwork that originally prevailed.

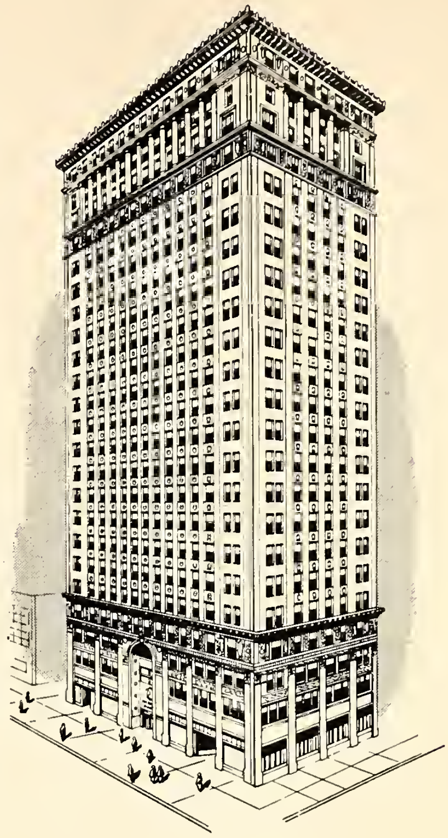
If the family has succeeded to the ownership of the stock it will have three alternatives: 1) retain all the stock; 2) retain part of it; 3) sell the entire holding. Where a complete or partial sale is contemplated, the natural market is the surviving owners. The alternative selected will depend on many factors which will vary with the circumstances, but the soundest solutions are always those that are planned during the lifetime of all the original owners and made the subject of a contract among them to assure ultimate completion. Almost invariably these solutions will require cash at the time of death for their orderly completion. Life insurance owned by the corporation on the lives of its stockholders or life insurance owned by each stockholder on the others will always provide this needed cash at the precise moment when the need arises. No other financial instrument can duplicate this unique performance, and it is accomplished with the utmost economy.

In many cases one man has developed the business himself, is the owner of a substantial majority of the stock, and wants his family to retain an interest—perhaps a controlling interest—in the corporation. Oftentimes such a man's assets consist almost entirely of his interest in the business he has created. During his lifetime he and his family enjoy a very satisfactory standard of living. An appraisal of the business interest for estate tax purposes is likely to produce a substantial taxable value which will result in a large estate tax and high administrative costs. With the bulk of his assets invested in the business, such a man's estate may not include sufficient liquid funds to meet these taxes and costs upon his death. A forced liquidation of sufficient stock in the business to meet these costs may either destroy the value of the business as a going concern, or introduce outside interests that are not in harmony with the objectives of the family. In either case, the businessman's desires for his family are not realized.

Fortunately the Internal Revenue

Old Republic

and the quarter-billion dollar question



Facts on the Company

Old Republic is the eighth ranking life insurance company in the country in terms of insurance written. It is the leading company specializing in writing credit life, accident and sickness insurance for financial institutions engaged in credit transactions. The company operates in 48 states, District of Columbia, Territory of Hawaii, Commonwealth of Puerto Rico and Dominion of Canada.

The Quarter-Billion Dollar Question

Old Republic wrote 1 billion 800 millions of insurance in 1955—an increase of 50 per cent over 1954.

In the first half of 1956, the quarter-billion dollars in business written represented a 28.96 per cent increase over the same period in 1955.

The question: Where will Old Republic get the type of men it needs to handle a semi-annual business increase of a quarter-billion dollars?

Facts on the Job.

Men employed as representatives will call on top executives of financial institutions—banks, savings and loans and others engaged in credit transactions.

Representatives are needed to handle business the company *now* has, and which all trends indicate will continue to grow at the present rate.

Facts on the Training Plan.

Men are first interviewed at their homes, then brought to Chicago. Those employed undergo formal classroom training and field trips at the home office before entering the field to work with experienced personnel. More formal training precedes "going it alone."

Salary and executive fringe benefits compare favorably with the best.

Is There Room at the Top?

The average age of Old Republic's top executive echelon is in the low 40's. For many this is still their first job. Personnel turnover with the company is unusually low. But business growth has outrun present personnel.

During the 1950-1955 period, Old Republic's business increased 4.3 times. During the same period, the number of corporate officers remained the same, while sales personnel increased only 3.2 times.

At this rate of growth, the company estimates it will need, within the next five years, 50 additional sales representatives, 10 additional executives and 6 additional corporate officers. Current recruiting is based on these anticipated needs.

Old Republic is a company worth investigating. Consult your dean or placement officer, write for an interview, and be on the lookout for Old Republic's recruiting officer when he visits your school.

Old Republic Life Insurance Company

307 North Michigan Avenue, Chicago 1, Illinois

Code offers relief for such a business owner. Under certain conditions as set out in the code, his corporation can redeem stock from his estate in an amount sufficient to meet these taxes and costs. A usual requirement for the purchase of its own stock by a corporation is the existence of sufficient surplus, and rather than take a chance that the corporation will accumulate the necessary cash surplus by the time of his death, the prudent businessman may utilize the unique features of the life insurance contract. A contract on the life of the businessman owned by and payable to the corporation will provide cash at the time it is needed to redeem the necessary stock to meet taxes and administrative costs. Thus the business may be preserved as a going concern with the family still in control.

One of the reasons for the rapid growth of private pension plans in industry during the past fifteen years is the increasing difficulty of accumulating a retirement estate in the face of rising prices and taxes. In addition to the prominent place of the life insurance companies and their contracts in underwriting these plans, there is a further and extremely important use of the contract of life insurance available to business. While the qualified pension plan does much to meet the retirement needs of the average employee, top executives often cannot be adequately provided for through this medium.

In competition for these top executives, corporations cannot always effectively offer higher salaries because increasing tax rates consume such a large portion of every added dollar of compensation. Many corporations, therefore, in lieu of salary increases, are turning to employment contracts that provide for the payment of income after the executive's death or retirement, thus providing a measure of security he could not provide for himself out of highly taxed current compensation. A contract between the corporation and the executive specifies annual salary payments that are to be made during employment as well as deferred payments to be made upon death or retirement, and enumerates the conditions the employee must observe to qualify for these payments. Thus the corporation undertakes a contractual obligation that may mature upon the employee's death or retirement. Corporate-owned insurance on the employee's life will cover this potential corporate liability whenever it may occur.

This corporate use of life insurance, as in the case of key man insurance discussed earlier, involves very little actual net cost to the corporation since it is largely accomplished by transferring assets from the corporation's cash account to a special account generally described as "Cash Value of Life Insurance." Thus even if the contingency being anticipated never materializes and the insurance contract is surrendered for its cash value, the actual net expense to the corporation for the protection enjoyed will be nominal.

Many as are the corporate uses of life insurance, the partnership has an even more spectacular need for its protection against financial loss. This arises from the personal relationships peculiar to partnerships. Unlike the state chartered corporation with its separate legal personality and existence, the partnership arises out of an agreement among individuals and has no existence separate from theirs. The law is very specific and harsh in its treatment of the survivors following the death of a partner. Death of a partner dissolves the partnership and the survivors are placed in the position of trustees charged with the responsibility of liquidating the firm's affairs and distributing the assets among the survivors and heirs of the deceased member. Any method of reorganization must have the approval of all interested parties or liquidation can be forced.

This is a precarious situation and one which can result in disastrous loss of values. An agreement made among the partners while all are living can establish their rights and obligations in a manner acceptable to them all and thus avoid unnecessary losses. In many cases, such an agreement will provide for continuation of the business by the survivors organized as a new partnership, with an agreed payment to the heirs of the deceased member for his interest. This gives assurance of uninterrupted business and a fair price for the heirs. It does require the availability of cash at the time of death, however, and life insurance is the most timely and economical method of providing this cash. Such life insurance, owned by the firm on the several partners, or owned by each partner on each of the others, has and is contributing greatly to the continuity and stability of this form of business enterprise.

Finally, the most common form of business organization is the sole proprietorship. Legally the sole proprietor's business assets and his personal assets are not distinguishable. There is no separate entity as in the case of corporations and no separate body of law as in the case of partnerships. It is the simplest form of business organization but does have needs that are best solved by life insurance.

The typical proprietorship is small, but may very well produce an excellent living for the proprietor and his family. If he has devoted most of his time and substance to building the business, and his family looks to it for their major support, a natural question arises as to what disposition will be made of the business in case of the owner's death. There are three alternatives that he might consider: 1) liquidate it; 2) will it to someone; 3) sell it.

The first course very often results in great shrinkage of value and consequent financial loss to the heirs. Life insurance can offset this loss and give the family full value for the business. The second alternative is often desired, especially where there are sons in the family, but a business that has just lost its guiding hand may be in for financial difficulties. Creditors call for payment on notes, banks are unwilling to make loans to untried management, collections slow up, and customers are likely to drift away. Such a business needs cash to help new management through this difficult period or it will be a liability instead of an asset. Life insurance on the owner can furnish this cash exactly when needed.

Finally, a sale of the business may involve a serious financial loss, even if it is sold as a going concern, if no arrangements are made until after death. A much more satisfactory plan, if the situation is appropriate, is a binding agreement with some employee or employees to buy the business at the owner's death and at a specified price. This creates continuing opportunity for the enterprising employee and assures the heirs of a fair value. Life insurance owned by the employee on the proprietor's life is the surest and most economical way to accumulate the money needed to meet the obligations of such an agreement.

In summary, it is apparent that an urgent need for cash always arises when the guiding human factor is suddenly lost to a business. Whether this need is for indemnification or to cover the obligations of a buy and sell agreement, it is most economically and conveniently fulfilled by life insurance. Part of the opportunity awaiting today's highly trained insurance representative is that of counseling with businessmen to point out these problems that can best be solved by life insurance. The imagination and intelligence he applies to the problems and needs he encounters, in business as well as personal situations, are a significant contribution to the success and stability of our economy.

MEETING TAXES

AND ESTATE SHRINKAGE

BY H. BRUCE PALMER

President of Mutual Benefit Life Insurance Company. Mr. Palmer's career with Mutual Benefit began in 1931, when he became an agent in Los Angeles. He came to the home office in 1946 and was elected president in 1953. He is a graduate of the University of Michigan.

"TAXES," it has been said, "are the price we pay for a civilized society." One service of life insurance is to provide the funds for paying taxes conveniently, economically, and certainly.

To you young men who read these pages seeking ideas for career opportunities, I would present brief portraits of three outstanding life insurance salesmen. They average at the height of their careers over $100,000 each of annual earnings. These men all do much work in the area of taxes and minimizing estate shrinkage. They illustrate the opportunity for success for different personalities using diverse methods.

Sam sees many clients and friends in a business day. He is constantly in other men's offices. One of his favorite approaches is, "I want to talk about your grandchildren." He talks in human terms about personal problems created by taxes. He does not pretend to be an expert in law and tax codes, but he is "the catalyst" to help a man become sensitive to the need for such experts. He makes a family man aware of what taxes may do to the estate he has worked hard to build.

Bob is entirely different. He has made himself an authority on the intricacies of estate planning work. His office is full of reference books and his clients now come to him for professional services by appointment.

The third man, Harry, is much younger. He has developed his business since World War II. He concentrates on business phases of tax problems. When a partner dies, or a stockholder in a closed corporation, what do the death tax requirements do to the business? How can an employer meet tax problems with advantage to his employees? His activities involve much stimulating contact with business leaders. His mind is constantly active in developing new solutions to the problems of growing businesses.

These sketches give an impression of the many phases of life insurance work related to taxes and minimizing estate shrinkage. Coming back to the heart of the matter, death taxes are a tax against capital. Meeting such taxes becomes a problem of producing the capital to pay the required bill.

The successful life insurance salesman talks life and not life insurance. He sometimes encourages his prospect to think about solutions to tax problems other than life insurance, because against that background the simplicity and economy of life insurance stands out with striking contrast.

For instance, paying the tax due when a man dies may be accomplished by taking part of the estate away forever, paying it to the government. That is, pay the tax out of the estate. That costs 100 cents on the dollar of the tax bill.

Another way is to pay the tax *for the estate*. Thus a man may pay the tax at a discount. By advance planning he can create the amount needed for the tax bill. For example, income on $100,000, or even part of it, depending on the rate of earning and the age of the client involved, will create a potential capital of $100,000. Under today's tax laws there are ways of keeping that potential $100,000 out of the taxable estate.

The question for a client to decide is whether he wants to pay taxes *out of the estate* or *for the estate*. Then whether or not to buy life insurance is automatic.

When a man thinks of the current cost to meet his tax bill it may be helpful to realize the yearly charge against his estate represented by the potential estate tax. Take a man aged 40 with a million dollar estate. His estate tax would be about $325,000. His life expectancy is about 30 years. Suppose during his expectancy he lives just within his income and prides himself on not invading principal. He still is going into principal at the rate of one percent a year because of the death tax that will be payable.

Minimizing the impact of estate taxes involves another factor. That is liquidity. Many estates have been ruined by forced sales. For example, Colonel Rupert is reported to have been offered, while living, $3.5 millions for the Yankee Stadium. After he died the stadium and the team—everything—were knocked down at $1.5 millions by the executors who needed cash.

Here again the client must simply think about his problem: does he, or does he not, need more liquid capital? If he needs capital how can he get it at the right time and at lowest cost? There is only one investment that matures by events and not by dates. Would he like to have an option on that liquid capital until just when he needs it? Life insurance offers that solution to his problem.

Looking from another angle at the opportunity to minimize tax problems at death, an idea is suggested by our accepted pay-as-you-go income tax plan. We are accustomed to periodic deductions through the year to make income tax payments as painless as possible. The capital needed to pay death taxes can be bought in advance on the instalment plan. The arrangement includes cancellation of instalments unpaid at the time of death.

These ideas so far have referred to

ways of having funds available to pay death taxes. Life insurance provides money for taxes more simply, economically and surely than any other method. Life underwriters offer a further service—the planning that will reduce the amount of the tax bill. Such tax reduction is not tax evasion. Judge Learned Hand said truly, "Anyone may so arrange his affairs that his taxes shall be as low as possible; he is not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes."

One basic method which usually reduces total taxes on an estate is division, and as one man put it, "the longer the division the better." That means breaking up the estate before death and giving it to spouse, children and even grandchildren. Of course there is no blanket plan which applies in all cases. That is where the help of a life underwriter and the other experts, such as the lawyer and the tax accountant, are needed.

The government has endorsed the principle of division to ease the impact of taxes in the marital deduction provision. This recognizes the joint interest, in the general sense, which married couples have in their holdings. It allows the division of a man's estate at his death and the transfer of title of half of it to his wife, under certain conditions, with no estate tax on that half at that time. The tax on the two estates at two different times is usually easier to meet than one tax at the death of the husband, and it reduces the hardship of double taxation on the same property within a short span of time. Life insurance on the life of the wife, adequate for the expected taxes, is a new feature of estate planning since the federal tax recognition of the marital deduction beginning in 1948.

In reducing an estate by division, one of the easiest ways is to give other members of the family money for life insurance premiums. Through various life insurance plans, estates can be built for new owners. For instance, a man may give his wife funds for a policy on his life of which she will be the legal owner and beneficiary. That insurance will not be included in his taxable estate at death. A grandmother may give life insurance premium money to grandchildren. They may buy and own policies on their own lives.

Another plan is for the grandparent's money to be used to finance life insurance on the lives of parents under which the grandchildren are owners and beneficiaries. This is a method much appreciated by grandparents, who thus give double gifts to the grandchildren—the actual money and the guarantee of at least part of the parents' life value to their families in case of untimely death. The grandparents also thus give their own children the priceless gift of complete freedom, since the parents know that losses suffered by them will not penalize their families.

If gifts are made from an individual's estate during his lifetime, there may be a gift tax. There are two kinds of gifts which may be made without tax. First, a person may give away up to $3,000 a year to each of as many different people as he wishes. These gifts are not taken into account at all. Then, beyond those, during his entire lifetime he may give away additionally up to $30,000 of his estate. On gifts above these limits a gift tax is payable, but the gift tax rates are never more than three-quarters of the estate tax rates, and hence make for economy in the total estate plan.

If a person makes a gift at death to an incorporated institution, that has tax advantages. Such gifts are excluded from his taxable estate, and so may reduce the estate and bring it into a lower tax bracket. Life insurance gifts are especially welcomed by charities, educational institutions, and churches because they are received in cash, promptly after the donor's death, and with no chance of claims from unhappy relatives.

Annual gifts to such institutions may be made through premiums on life insurance policies. If ownership is fully vested in the institution, the premium may be an income tax deduction within the approved 20% or 30% limit. For large incomes, the savings in income tax owing to such gifts out of capital may be large enough to finance new life insurance that will compensate for the property given away. The possibility of advantage to worthy causes and to the estate-holding family makes a fascinating study, and this sort of case is an interesting part of the work of some life underwriters.

The desired division of property gives an opportunity for life insurance sales and service, as has been pointed out. Estate planning should cover also the problems involved in necessary division of property. When there are a number of heirs in the picture a wise owner looks forward to ways of simplifying the distribution of his estate among them. This has led many owners to change the kind of property held as they think of its transfer. For example, works of art cannot be divided easily and fairly among five children. A business or real estate offers similar problems. To liquidate some types of property themselves while they live is one of the kindest things many estate owners can do for their families. Life insurance or annuity contracts offer excellent vehicles for the transfer of these liquidated estate values.

In fact, setting an estate in order requires a very searching analysis of the kind of property that is most useful at various stages of a person's life. What may be a profitable and enjoyable asset to a man in the midst of his business life may be a burden and a worry in retirement years. That which is most desirable for an industrialist with expanding operations may be most unsuitable for his widow and children.

Life insurance property gives both money and money management. An estate owner will want to consider all that means when he is planning to minimize the effect of death and taxes. There are certain definite tax advantages to a widow left a life insurance income. If an estate must be reduced through death taxes the impact on the widow's income may be reduced through annuity arrangements. Annuities enable her to use part of her principal to supplement current interest earnings but to be secure in a lifetime income.

Life insurance payable to named people need not go through probate as part of the estate. This means smaller direct costs. Possibly other savings may result because the transfer is made without delay and enables the family to make early practical living adjustments. A prominent banker once said that his long experience in handling estates convinced him that $100,000 in life insurance for a family was worth $125,000 in other kinds of property.

This brief review of what we sometimes call "advanced life underwriting service" points out some of the opportunities for a college-trained man. Solving many of these cases requires much technical information and experience and cannot be handled by a beginner alone. However, our best life insurance organizations today prepare a new man fairly soon to work effectively in these areas. Also, joint work with a qualified associate is a most satisfactory way for a young man to get a share of this business and at the same time to learn how to handle it alone.

The life insurance salesman, at every stage of his career, works with the interesting problems of life and of business. He constantly meets new people and new ideas. The opportunities for personal growth and self-expression are unlimited for the qualified man who is willing to pay the price for success.

CREDIT

LIFE INSURANCE

BY RICHARD B. DOSS

Chairman of the Research and Education Committee of the Consumer Credit Insurance Association. Dr. Doss graduated Phi Beta Kappa from the University of the South and received his MA and PhD degrees in history from the University of Virginia. He is also Director of the Research and Personnel Division of the Old Republic Life Insurance Company.

LAST WEEK a 25-year-old graduate of a business school called me from Mansfield, Ohio. He wanted to verify information concerning his extensive itinerary—one which had taken him into ten states and caused him to travel over 5,000 miles in the past four weeks. "How's everything, John?" I asked. "Fine. Traveling pretty hard, but I don't mind a bit. No one could in this business with all that you learn and see and do. It's fascinating!"

John is one of fourteen young graduates from all types of schools, big and small, liberal arts as well as business, which my company, a member of the Consumer Credit Insurance Association, hired this spring. He served two years as a sergeant in the U. S. Army Counter Intelligence Corps and recently completed a BSBA degree majoring in finance. You might say John "had been around." Like most good college students, he had many attractive offers upon completion of his degree. That he chose a company specializing in consumer credit insurance probably could be attributed to the nature of this 40-year-old industry.

The credit insurance salesman—and the great majority of executives in this business come from the sales ranks—after several months of training will represent a company which sells to and services virtually all types of financial and merchandising institutions with credit facilities and money-lending operations.

Commercial banks are prominent among the clients of successful credit insurance companies because they make instalment loans to people who want to buy household goods and have no funds readily available. Banks grant mortgages, they buy or discount automobile finance paper, and they make secured loans in larger amounts to family breadwinners who want to modernize their homes by adding a garage or building a new room or putting on a new roof.

Credit unions, which are not for profit lending agencies made up of groups of people organized to pool their savings and make loans to each other, are equally prominent users of credit life insurance. These low cost lending agencies are dedicated to helping their members solve financial problems.

Sales finance companies, farm credit lending agencies, savings and loan associations, consumer finance or small loan companies, department stores (with their popular revolving and charge account plans), furniture and appliance dealers, and industrial banks also find the insurance programs of credit insurance underwriters attractive or even prerequisite to their success in competing for the American debtors' business.

These institutions generally buy their credit insurance programs from salaried representatives of specialty or multiple line insurance companies. Why do the institutions buy and why do ambitious men enjoy selling and servicing these accounts?

The lenders or credit-grantors as well as their debtors want the insurance protection because it "worry-proofs" their debts. Men enjoy selling it because they must learn many types of insurance programs and because they also must learn about the philosophy and operations of the financial institutions.

The case of Harvey Curtis, a 22-year old clerk, will illustrate the meaning of "worry-proofed" debts. Curtis had been married only eighteen months in early 1955 and was the proud father of a 3-months' old baby boy. One Sunday afternoon Harvey's car skidded and overturned. He suffered a fractured skull and internal injuries, was hospitalized for several months, and finally died. Young Mrs. Curtis knew about the bills they owed. Until her husband's death, however, she was not fully cognizant of the care he had taken to rid her of worries and obligations in case of catastrophe.

When Harvey borrowed to buy the furniture and carpeting for their apartment, he had purchased through his financing institution credit life and accident and health insurance protection. Harvey was at least consoled that while he fought for life his obligations were being met. For his credit accident and health insurance policy provided benefits equal to his monthly furniture payments during the period of his disability and were paid directly to the creditor by the insurance company.

After Harvey died, Mrs. Curtis was informed by the instalment credit department of the financing institution that the unpaid $590 balance was liquidated under the terms of the credit life insurance policy which Harvey had purchased.

Hence, these two policies had provided added security for the financing institution and protection and peace of mind for the debtor and his family. Insurance eliminated the necessity of the creditor collecting loan balances due from the bereaved widow. And the cost for such protection had been reasonable.

Credit life insurance, as it is thought of today, was originated by Mr. Arthur J. Morris, founder of the Morris Plan Banks and the Morris Plan Insurance Society. The Society issued its

first credit life insurance policy in 1917. There was in use at that time, however, a mortgage redemption insurance policy designed to assure similar results—liquidation of debt in case of the debtor's death.

Not until the end of 1937 did the number of debtors enjoying credit life insurance protection pass the one million mark. By 1950 the number of debtors protected soared to 10.8 million and more than doubled itself in the ensuing five years so that by the end of 1955, 27.9 millions were insured.

Credit accident and health or disability insurance came into its own during the post World War II period when consumer credit skyrocketed, although it had been tried on an experimental basis during the 1930's. By the early 1950's it was clearly established as a popular and worthwhile program. (Unfortunately, no nationwide credit accident and health or disability statistics are available.)

There are two basic credit life or accident and health policy plans—individual and group. At the end of 1955, 16% of credit life insurance in force was on the individual plan and 84% on the group plan.

Within each of the basic policy plans there are many variations, not only as to the type of protection offered but as to the type of contract between the insurance company and the creditor-policyholder or lender-agent. These variations contribute substantially to the fascination expressed by sales representatives such as our young ex-sergeant, John. He must learn to negotiate the contracts and generally supervise the handling of such insurance in financial institutions throughout the country. To issue tailor-made policies to different types of institutions or to incorporate modifications in contracts to meet local or regional characteristics of various financial institutions will become his responsibility.

Hence, the credit insurance company representative or executive must base his salesmanship and service upon good judgment in ever-changing circumstances. His creative ability and his knowledge of business conditions affecting credit institutions are prerequisite to success.

One of the fourteen new members of our staff, referred to above, was asked during a recent appraisal interview if he felt he had made the right decision in joining a company in this industry rather than accepting other attractive offers. He answered, "Yes." Why? "There's something different every day and it's usually important. There's selling involved, knowledge of the law, of finance and insurance. A man can use a liberal arts background just as quickly as a business background. Granted we sell to executives, but they, like us, are always interested in the thousands of people we both serve. Had I gone elsewhere I would have become a specialist and confined. Here I am a specialist with exposures unlimited."

Credit insurance operations are subject to laws and regulations governing insurance companies in every state in which they operate as well as laws and regulations governing the many credit institutions which they serve. These laws and regulations are in a state of flux. Representatives of companies writing such insurance must keep abreast of legal developments.

The growth picture is fantastic for several reasons. In 1940 only 4.5% of consumer credit outstandings were protected by credit life insurance; in 1950 only 18.6% was insured, and by the end of 1955 slightly less than 50% of the $37.1 billion of consumer credit outstandings were protected by credit insurance. Combine this rapid penetration increase with the fact that estimates indicate a possible doubling of consumer credit in the next ten years and one sees a mammoth industry in the making. Credit insurance underwriters, furthermore, are developing applications of the debt-liquidation insurance principle to credit transactions other than consumer credit as such.

Here then is a vibrant industry fascinating to the young man as well as to the few seasoned veterans on the scene today. Here is an industry founded to serve the thousands of Harvey Curtises who no longer think it is disgraceful to borrow money and buy now in order to enjoy better living while they pay.

The credit insurance industry is dedicated to the principle that debt need not outlive its maker. Executive talent, bright young actuaries, and a larger, better-informed sales force are the immediate aims of management in this field. Advancement is rapid by virtue of startling growth and increasing administrative complexities. This industry is young and in many ways unstable. Men who join its ranks must be willing to accept a challenge as well as to capitalize on opportunities. Presently the number of companies writing one of the many forms of this insurance exceeds 150 and virtually all of them have dire personnel needs.

* * *

THE GROWTH

OF RETIREMENT PLANS

BY WALTER O. MENGE

President of The Lincoln National Life Insurance Company. A graduate of the University of Michigan and a Fellow of the Society of Actuaries, Dr. Menge taught insurance at the University of Michigan until 1937, when he joined Lincoln National as an actuary. He was elected president in 1954.

FROM THE DAYS of Poor Richard, Americans have upheld the virtue of thrift. Yet it was only during the last quarter century that events transpired to result in a rapid development of what may be termed a retirement consciousness in this country. A mixture of anxiety and informed concern, this emerging consciousness of the retirement problem has been a major force in the establishment of the Federal Social Security system and the creation of many private employer-employee pension plans which grant benefits supplementary to those of the federal system. These private plans, when soundly conceived and prudently administered, are in essence an organized program of long term savings directed to specific objectives—an old-fashioned virtue in a different garb.

The severe depression of the 1930's resulted in an economic shock-wave, shaking the collective faith of the American people in the ability of an industrial society, highly productive though it may be, to provide economic stability for American business and financial security for American families within the traditions of freedom of enterprise and individual liberty. Out of this harsh experience was born a new emphasis on the need for economic security.

Life insurance companies are making an increasingly important contribution to the solution of the retirement problem. Through the sale of annuities and retirement income contracts to individuals and the administration of employer-employee pension plans, facilities are being provided for the accumulation of funds during the individual's productive years and for the orderly disbursement of funds throughout the remainder of his life after retirement. In fact, life insurance companies are particularly qualified to perform these services because of their widely diversified investment operations, the specialized knowledge of their technical staffs and sales and service organizations and because of the unique properties of the life annuity, an essential element in all of these plans.

A life annuity is a sequence of payments, usually of equal size, payable periodically during the lifetime of a person called the annuitant and ceasing at death. Each periodic benefit payment, in effect, consists partly of interest and partly of a return of principal. By combining the financial experience covering large numbers of annuitants, the life insurance company can safely guarantee to each of its annuitants that the annuity payments will be continued as long as he lives. The company can make these guarantees knowing that it can rely on the mortality statistics underlying the determination of its rates to produce a sufficient gain from those whose deaths occur sooner than average to counterbalance the losses on those who survive to a later date. If the rate of interest earned and the mortality of a group of annuitants follows the exact pattern of the mortality table, then upon the occurrence of the last death within a large group of annuitants, both principal and interest will have been exactly exhausted in benefit payments. Since no principal will remain unused, only the minimum capital accumulation needed to produce the desired income for the duration of life is required when the life annuity mechanism is employed. The capital requirement under these circumstances is considerably less than what would have been required to produce the same amount of income on the basis of interest only, with the capital being retained intact.

Life annuities take many forms. They may be purchased with a single deposit or they may be purchased by means of periodic deposits extending over a great many years. They may provide for the commencement of income payments immediately upon the payment of a single deposit or immediately upon completion of a series of periodic deposits; alternatively, commencement of the income payments may be deferred for some time thereafter. Annuities may be combined with a provision for the payment of an insurance or death benefit before commencement of income payments, and they may be combined with a provision for a death benefit in some form payable at death after commencement of the income payments. This variety permits the skilled life insurance salesman to select the particular type of annuity best adapted to the requirements of his client.

The following table shows the increase which has taken place in the number of individual annuity policies in force in United States life insurance companies during the last twenty years by five year intervals:

TABLE A

INDIVIDUAL ANNUITIES IN FORCE

Year	Number of Annuities	Amount of Annual Income
1935	710,000	$375,000,000
1940	940,000	475,000,000
1945	1,080,000	528,000,000
1950	1,235,000	585,000,000
1954	1,267,000	622,000,000

(Source: "Life Insurance Fact Book," 1955)

Practically every policy of life insurance is potentially a life annuity contract, because of the options it provides for the payment of the proceeds at death or maturity. Endowment insurance policies usually permit conversion to life annuities at maturity, and this type of settlement in the form of a retirement income is particularly popular with many people. The large numbers of endowment and retirement income insurance policies now in force are not included in the figures shown above for individual annuities. Important as the sale of individual annuities and retirement income policies has been, a greater contribution to the retirement problem has been made by the life insurance industry through the administration of insured pension plans. The table below illustrates the growth of these plans during the past twenty years.

* * *

During the decade since the end of World War II, the subject of pension plans has been very much in the news as major labor unions have sought on behalf of their members to establish private pension plans through collective bargaining. Long before this recent interest, however, many employers had voluntarily established pension plans for their employees and officers, feeling that the long term benefits to their business enterprises fully justified the cost of the plans. Representatives of life insurance companies undoubtedly contributed to the thinking that resulted in these far-sighted decisions, pointing out that a pension plan creates a healthier climate for efficient operation and sound growth of the business enterprise through better employee and community relations and an improved morale. Passage of the Federal Social Security program in 1936 also stimulated adoption of private pension plans by providing a subsistence base on which to build an adequate retirement program at reasonable cost. The federal income tax laws offer additional encouragement to the adoption of private pension plans by granting distinct tax advantages to both employer and participating employees under qualified pension plans.

Essentially an insured pension plan is the pooling of resources by a group of individuals in accordance with a formal agreement which makes use of the facilities of a life insurance company or the accumulation of deposits and the payment of retirement benefits. Larger groups generally use group annuities of the so-called unit-purchase or deposit administration type. Smaller groups often create trusts which provide for the pension benefits by purchasing individual retirement income policies; these policies frequently combine life insurance protection with the pension arrangement. In addition, several other types of plans have been developed by life insurance companies to meet special situations. These insured pension plans are almost invariably arranged through employers and the employers usually contribute the major share of the cost.

As its name implies, the unit-purchase group annuity plan provides for the immediate purchase, with each year's contributions, of a small unit of fully-paid, deferred life annuity for each participant. A participant's total lie annuity benefit at retirement is the sum of the benefit units purchased for him during the years that he participates in the plan.

The deposit administration group annuity plan consists essentially of provision for the accumulation of an unallocated fund from which a life annuity is purchased for each participant at the time he retires. Actuarial estimates of the contributions which should be made to support the cost of the plan are made periodically. Guided by such estimates, deposits are placed with the insurance company from time to time, usually at least once each year. Each time a participant retires, there is applied from the deposit fund the amount required to purchase the life annuity for which he has become eligible by the terms of the plan.

Adding to the retirement consciousness of our people and to the impact of the retirement problem on our national economy is the increasing longevity of our population. Better housing, better health education, improved standards of public health, improved medical care, and the discovery of new drugs are helping people to live longer lives. Furthermore, any important advance in the control of cancer, heart disease and other degenerative disorders, which we all hope will result from current research, will add materially to the duration of life. Longer life, however, means more people reaching retirement age, and it means an extension of the period during which income is required for living after retirement.

The effect of our greater longevity is readily apparent in the growing proportion of our people who are 65 years of age or older. For example, in 1900, 4.1 percent of our population was age 65 or older; by 1950 that figure had increased to 7.7 percent and by the year 2000 it is estimated that 13.2 percent of the population will be age 65 or older. This population shift means an expanding need for intelligent planning that will:

1) provide an assured income payable to those who retire;

2) minimize the burden of tomorrow's retirement income payments on the living standards of tomorrow's producers by accumulating, through the practice of sound principles of thrift, a capital inheritance that will adequately increase our capabilities for production;

3) provide for retirement income in ways which are politically compatible with our American inheritance.

Here is a challenge and here is an opportunity for the life insurance business to serve American people and American business by accepting the responsibility of leadership in this area toward an aggressive extension of the use of its unique facilities.

Our nation's productive capacity and hence our ability to save is on the increase. A competitive vitality and a keen sense of social responsibility are dominant characteristics of the life insurance business. These are good reasons for believing that the future will see an even greater increase than the past in the use of insured pension plans and individual annuity policies to fulfill the needs of the family and business for retirement benefits.

TABLE B

INSURED PENSION PLANS IN FORCE

Year	Number of Plans	Number of Persons Covered	Year's Deposits	Accumulated Deposits (Reserves)	Amount of Annual Income
1940	1,530	685,000	STATISTICS NOT AVAILABLE		
1945	6,700	1,465,000	STATISTICS NOT AVAILABLE		
1950	11,250	2,740,000	$ 925,000,000	$ 5,450,000,000	$ 995,000,000
1955	18,980	4,150,000	1,415,000,000	11,075,000,000	1,815,000,000

(Source: Institute of Life Insurance)

INCOME USE OF LIFE INSURANCE

BY BENJAMIN L. HOLLAND

President of the Phoenix Mutual Life Insurance Company. Educated at Kansas University and Yale, Mr. Holland is a member of the American Bar Association. He advanced through various legal positions to the presidency of Phoenix Mutual in 1948.

In its beginning life insurance was used principally to provide for burial expenses. Anything left over helped pay adjustment expenses for the family. This called for lump sum payments, and companies measured their quality of service by the promptness with which claims were paid. As life insurance gained favor, larger sums were paid to beneficiaries. The question arose as to the best method of protecting these funds from loss and at the same time preserving the unused portion so as to provide additional funds through interest earnings.

Stories became prevalent about beneficiaries who had dissipated insurance funds or had lost them through unwise investments. The insuring public began to request the life insurance companies to protect against this hazard. Out of this demand grew the issuance of policies containing income settlement options. These options permitted the beneficiary to elect to receive payment in any one of several methods. The most common permitted the funds to be left with the company at interest, to be paid in a specified number of installments with accumulated interest, or to be paid as a life annuity.

This did not, however, meet the entire need of the insured because, in most instances, he wanted to be certain that a specified income was going to be paid after his death. This would relieve the beneficiary of the necessity of arranging for the use of the options and avoid any danger of unwise investment or possible wasting of the insurance proceeds. As a result, the life insurance companies devised the use of supplementary contracts through which the insured determined the method of settlement for his life insurance proceeds. By using the basic settlement options with combinations and modifications, a very large variety of settlement plans could be arranged so as to meet almost any conceivable plan for the adequate protection of his beneficiaries.

Usually the insurance company does not become a trustee. Its obligation is simply to make specified income payments at stated intervals. Funds for this purpose are not segregated but remain a part of the general assets of the company. This offers the greatest possible security to the beneficiary.

The income is guaranteed and often the particular income settlement agreement with the insurance company provides for additions to the income if the experience of the company leaves margins above the cost of providing the guaranteed income. Furthermore, some of the options make available life annuities which life insurance companies are especially well equipped to provide. This provides the assurance that the beneficiary will not outlive the income.

There are a multitude of arrangements available which are too numerous to outline. However, for illustration, one of the common plans for family protection arranged by the insured contains substantially the following provisions:

1) The proceeds of the policy are left with the insurance company at interest for the benefit of the insured's widow. The interest is guaranteed, usually at a rate of not less than 2% to 2½% per annum, often with provision for additional interest if earnings of the company exceed the guaranteed rate;

2) The widow is given the right to make withdrawals from the principal which may be limited to a specified amount each year;

3) The widow is also given the right to have part or all of the principal remaining applied to provide a life annuity on her life after attaining the age of 60 years. This is arranged so as to give her as high an income as possible in her later years when the children have become grown and there is no longer any need to retain the principal amount for their benefit;

4) Should the widow die while any of the principal amount remains, the balance is divided equally among the children and each child's share is held until a specified age, at which time each receives his share.

In other cases a specified monthly income is paid as long as the principal, with accumulated interest, lasts. Each payment is made to the widow, while living, and after her death in equal shares to the children.

Or the children may all be grown and the real need may be a maximum income to the widow, in which case the amount of insurance is applied directly under a life annuity for her.

Life insurance income is sometimes used to take care of the home mortgage payments as they fall due. However, if the mortgage terms permit, the mortgage usually should be paid off as soon as possible by applying the insurance proceeds in a single payment in order to stop further interest charges on the mortgage.

It is often advantageous for business partners or stockholders in a closed corporation to secure insurance on the lives of each other for the purpose of transfering the ownership of

the business to the survivor upon the death of the first to die. This enables the survivors to carry on the business operation without interruption. The insurance can be arranged to provide an income for the family of the decedent to replace the income from his business interest.

All income plans should be reviewed at intervals so that proper revisions can be made to meet changing conditions in the insured's family. For the same reason, wills should also be reviewed from time to time. Regardless of how the proceeds are to be paid, the insurance should always be thought of in terms of the income it will provide. That is the best way for an insured to measure the amount of insurance he should own. For example, an insured who has $20,000 of life insurance may think the amount adequate until he finds that, at 3% per annum, it will provide an interest income of only $600 a year. To provide a larger income, using the principal and interest accumulations at 3% per annum, this amount of insurance will pay $200 a month for only nine years and six months.

For that reason some years ago life insurance began to be marketed on the basis of income instead of merely the face amount of life insurance. This change in the marketing method gave rise to the use of so-called "estate" plans presented by many life insurance salesmen today. Under these plans the amount of the insurance is determined by the amount of income needed. The necessary funds to meet estate taxes and other expenses are made available immediately and the balance is used to provide the necessary income for the beneficiaries. Any unused funds upon the death of the primary beneficiary are passed on to secondary beneficiaries in income or in a lump sum. No plan has ever been devised which has given so much security with such certainty of income.

Many and varied arrangements for the payment of policies in income have developed out of the requests of policyholders and the desire of life insurance companies to meet specific situations confronting individual policyholders. This service is rendered by the life insurance companies solely for the benefit of policyholders and their beneficiaries. It usually has been provided at not more than actual cost. Life insurance companies are not in competition with life insurance trusts that are often arranged with corporate trustees where the function of conserving the insurance proceeds is properly carried out and where the guaranteed income is not important or the life annuity principle is not required.

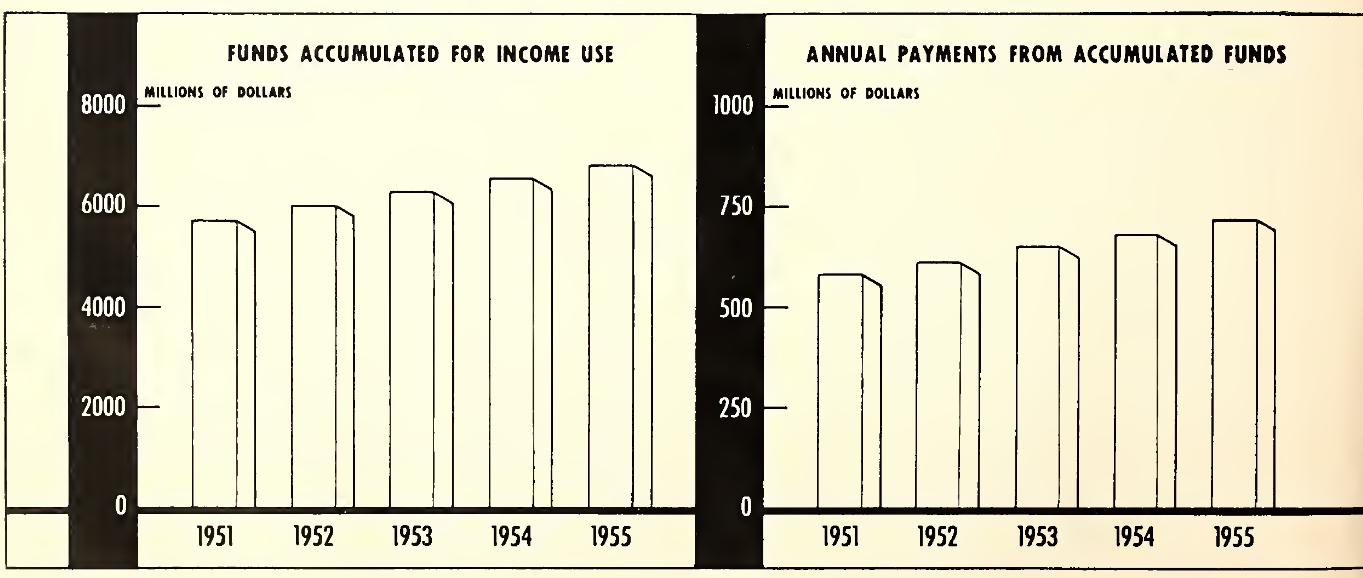
The trusteed plans have the advantage in certain situations where the insured desires the trustee to use its discretion as to when and how much should be paid to the beneficiary according to general instructions contained in the trust instrument. Usually the income payments made by a life insurance company are fixed in amount and conditioned on the happening of clearly defined events or on specified dates.

The early uses of life insurance to provide income related principally to the death benefit. In addition, in recent years the public has come to think more and more of insuring income to the insured while he is living. Life insurance companies have been quick to respond to the needs and desires of the insuring public in this respect. As a result, the income uses of life insurance have increased steadily. The major use has been to provide retirement incomes either to the individual or to individuals through group arrangements. The life insurance policy may be designed to provide a retirement income at a selected age, usually at 55, 60, 65 or 70. Of course, any life insurance policy that has a cash value may also be used to provide a retirement income by placing the cash or maturity value under one of the income options at any age desired. Many of these policies also contain provisions for joint survivorship annuities which are available to continue income so long as either the insured or his beneficiary is living.

Some policies are used to provide educational payments for children. The arrangement most often made is through the use of endowment policies maturing at the beginning of the educational period. The maturity value is paid in installments during the educational period. Should the insured die, the proceeds of the policy are held at interest by the company until the educational period and paid in installments during that time.

The arrangements for income through life insurance have been developed from a century of experience of life insurance companies in meeting the social and economic needs of the insuring public. The great majority of our citizens have come to think of their own requirements and the needs of their families in terms of periodic installments of income. As needs of the insuring public change, the arrangements by the life insurance companies will continue to be modernized to meet these needs.

INCOME USE OF LIFE INSURANCE BENEFIT PAYMENTS



PLANNING

FAMILY SECURITY

BY WILLIAM P. WORTHINGTON

President of Home Life Insurance Company. Mr. Worthington began his insurance career at the age of 19. He rose through sales management ranks to the head of the company in 1953.

WHAT IS involved in the planning of family security and what is likely to make it attractive to career minded men who have the qualifications for success in this field?

In attempting to answer these questions, I will lean rather heavily on the "planned estates" operations and procedures of our company which specializes in this service. Yet, the broad objectives of insurance estate planning are similar, so I believe the reader will find in this article information which will permit an evaluation of the field as a whole.

Planning family security through planned estates is primarily a service for owners of life insurance. Most men who own life insurance have been so occupied with their business or professional affairs that they have had neither the time nor the inclination to study the many values in their life insurance policies. As a result, the life insurance they own is merely a collection of unrelated policies purchased from time to time with only a general idea that somehow they are solving the problem of family security. For these men planned estates provides a vital service by correlating their policies into a coherent plan. Just as bricks, lumber and other building materials do not become a house until the architect and builder have performed their services, a collection of insurance policies cannot be most effective until it is properly planned and coordinated to carry out the owner's specific objectives. The completed planned estate can substantially increase the amount of benefits guaranteed to beneficiaries and give policyowners a much greater appreciation of the value and effectiveness of the life insurance they own.

As he provides his service, the field underwriter, who makes a career of planning family security, seeks to:

> Help the client set his individual and family security objectives.
>
> Provide the cash sums and continuing income required to carry out these objectives when death or retirement stops the client's earnings.

From confidential information given him, the field underwriter helps the client crystallize his family's current and future security requirements. The client's collection of policies are then combined by the field underwriter in conjunction with the company's trained staff into a well coordinated master plan to meet these requirements. In this process the client's present life insurance contracts are studied to determine whether or not full advantage has been taken of valuable benefit options, estate administration costs have been reduced through present beneficiary arrangements and full use has been made of the living values available in life insurance to guarantee security during retirement years.

In all, at least seventeen "check points" are reviewed to improve the client's life insurance estate. When this is completed, a planned estate chart is prepared, which pictures graphically what his life insurance can accomplish. If the client's present life insurance will carry out his objectives, the field underwriter informs him his plan is complete and that he stands ready to handle the final details of putting it in order. If not, the field underwriter recommends the type and amount of life insurance the client needs to complete his planned estate and guarantee the things he wants for himself and his family. The field underwriter's aim in all cases is to determine not how much but how little life insurance is required to do the job.

How do people react to this planned family security concept of life insurance? Here is what one client said about the work done for him:

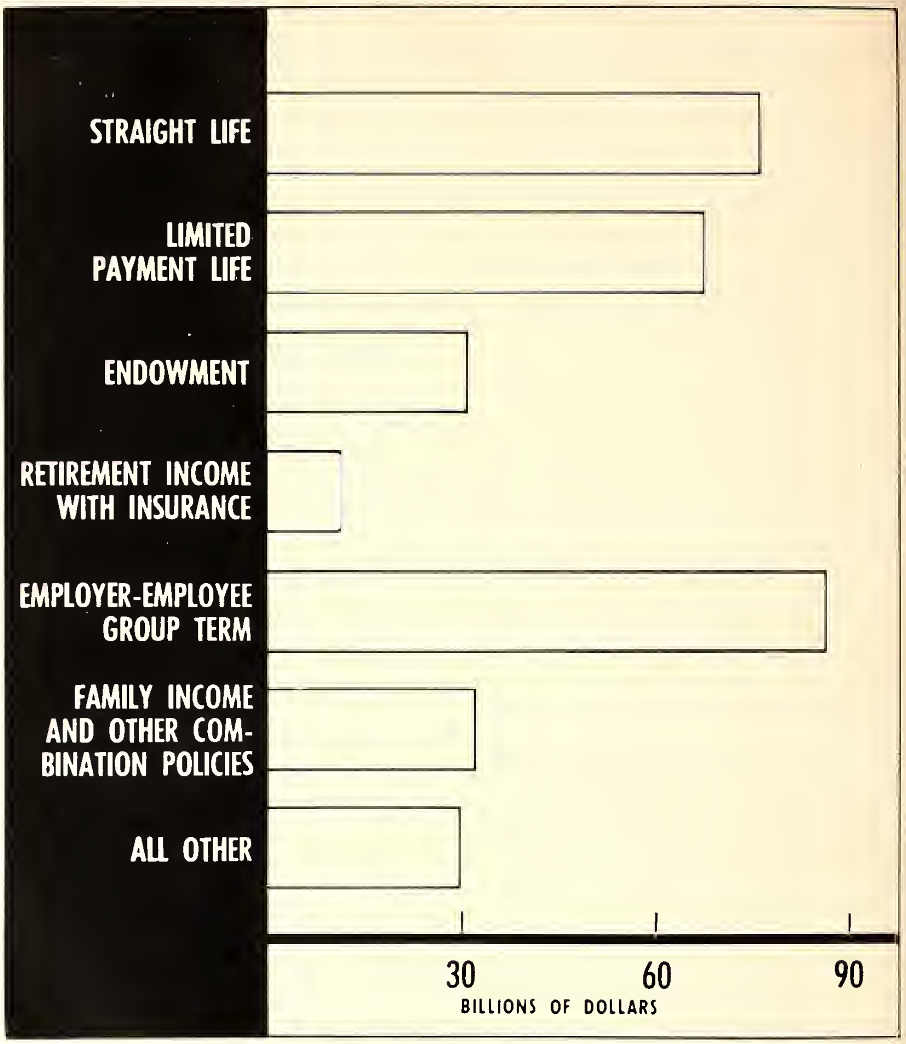
> "I was unaware that I had practically disinherited two of my three children . . . that no provision had been made in the event of a common disaster . . . that the value of my present insurance could be increased substantially . . . that the proceeds of my estate could be protected against creditors. Your field underwriter has brought these things to my attention and is taking steps to make my family's future more secure."

Another comment on planned family security:

> "Five months ago, I experienced the shock that no woman ever anticipates—the sudden death of my husband. Faith and family and friends have helped me inestimably but, even with these supports to lean upon, I found myself worried about finances . . .
>
> "Some years ago, Mr. .... worked out a 'planned estate' for our family . . . (upon his retirement) Mr. .... continued working on our 'plan,' to keep it up to date, and it has now been put into action . . .
>
> "This regular guaranteed monthly income that comes to the girls and me through the planned estates service is just the most wonderful thing that could have happened to us. We are so very grateful . . ."

The two comments, one by a program director of a Detroit radio sta-

LIFE INSURANCE IN FORCE IN THE UNITED STATES BY PLAN 1954



tion and the other by the widow of a planned estate client, are typical of letters written every day by people all over the country to describe their reactions to the planning of their family security. They speak volumes for the importance of planned life insurance in the lives of American families. Also, they reveal some of the satisfactions that go with the planning of life insurance estates, a phase of the life insurance business recently described in Fortune as America's new "growth industry."

To be effective in planned estates service, the field underwriter must be carefully selected and thoroughly trained. He seeks "problems to solve, not prospects to sell." He makes a career of life insurance work and devotes his efforts to the building of a permanent clientele instead of temporary customers.

Essentially, planning and providing family security is a process of counseling and creative selling. It enables the client with a family to see clearly, in many cases for the first time, the income replacement problems to be faced should he "die too soon or live too long." It demonstrates the remarkable adaptability of life insurance in the solution of human problems.

This is a valuable service which creates important new wealth and economic stability in the community, and it follows that the income of the typical, successful field underwriter is among the highest in the field of selling. He is in a business which has one of the best growth potentials in America. He builds his career on a professional plane and he enjoys a degree of self-determination as to his success that is rarely found in other fields of endeavor.

When you stop to think of it, what finer use could any man make of his time and his talents than by bringing a whole group of people who are his clients and friends to a new level of happiness and security as a result of his efforts.

* * *

HOSPITALIZATION

AND MEDICAL COVERAGE

BY HORACE W. BROWER

President of Occidental Life Insurance Company. Mr. Brower's business career began in the banking industry, but in 1933 he took over the management of the Mortgage Loan Department of Occidental. Following a series of promotions Mr. Brower was elected president of the firm in 1951.

THE STATISTICS change each year, but unless 1956 deviates abruptly from the trend established over recent years, it is reasonable to expect that accidents will cause more than 10,000,000 injuries and more than 100,000 deaths in the United States this year. This means that a disabling injury will occur in one family in four. Further, we can expect that some degree of permanent disability will be suffered by a half-million people.

Appalling and as seeming universal as the accident rate is, however, it is four times more probable that an individual will be disabled by sickness this year. Each day four million people between 14 and 64 are too ill to work. Seventeen million people are admitted to hospitals every year. Every third family can expect one hospital admission this year.

The average hospital and surgical bill is for $516. One in 50 has a medical bill which amounts to more than 25 percent of his yearly income. One in a hundred has an annual medical bill for more than half of his income.

The national yearly medical bill is estimated at six billion dollars. The annual wage loss from accidents alone is two and a half billions and from sickness, seven and a half billions.

Now our economic structure is based on income. Capital is worthless unless it is able to yield income. It is income on which the individual's well-being depends, and it happens too often that when the individual is disabled, his income stops. And such disability is accompanied by the expense of medical care. Thus are 16 billion dollars each year involved in the treatment of illness and the recovery from disability.

It is evident that something must be done—a way must be found to assure the disabled a measure of income with which to defray medical costs and additionally, to sustain him until he is able once more to sustain himself. This, essentially, is the function of accident and sickness insurance.

Accident and sickness insurance constitutes a free attempt by society to care for its own in an emergency. It stands today as the product of social responsibility conjoined with active enterprise to meet first, the public's appeal for protection and second, the demands of the nation's economy.

Such a combination has worked to a like end to meet like needs for centuries. Through a unique and storied arrangement with their physicians, the Chinese apparently have always had a form of sickness insurance. There were benevolent societies in Greece and Rome which served the soldiery and the populace. The medieval guilds provided their members a measure of A & S protection. The Netherlands in the seventeenth century had a plan which provided dismemberment compensation for its soldiers and parliament in 1757 established compulsory sickness insurance for English stevedores.

These plans, however, were largely restricted to members of certain groups and it was not until the Industrial Revolution and its consequent material advances and philosophic geneses that the recognizable ancestor of modern accident and sickness insurance was developed. The opportunity for better travel was extended to more people, the speed of communication increased and the worth of the individual was suddenly recognized as it never had been before. The coincidence, then, of an increased accident rate, a near realization of how widespread accidents and illnesses were and a hitherto unknown concern for one's fellows conspired to force the development of disability insurance.

One thing for which the nineteenth century was notable was the prevalence of railroad accidents. The accidents in England became so numerous and the resultant publicity was so bad that in 1848 the English railroads assisted in the formation of Railroad Passengers' Assurance of London, the first accident company and a company which is operating today. Originally formed for insurance against railroad mishaps, the company extended its charter in 1852 to cover all accidents.

Straight sickness insurance appeared first in the United States when the Massachusetts Health Insurance Company was formed in 1847. It was followed presently by a number of organizations most of which soon failed, principally because of the absence of reliable morbidity statistics.

In 1850 was formed the first American accident company, the Franklin Health Assurance company of Massachusetts, whose early offering was 24-hour coverage for railroad and steamboat accidents.

In 1863 a Hartford architect, J. G. Batterson, became acquainted with the work of Railroad Passengers' Assurance while traveling in England and when he returned to Hartford he established the Travelers Insurance company.

There followed a decade of strenuous promotional activity and by 1870 the accident insurance business was a large one. Those years between 1870 and 1916 were ones of rapid growth and wide development. Several strong companies were formed, a few of the larger life companies entered A & S, and straight sickness insurance began to appear in quantity. Policy forms attained greater latitude and such fea-

tures as double indemnity, the accumulation clause and the identification benefit were introduced. In an attempt to induce conformity among the companies in practices and procedures, the several states began about 1914 to pass the Standard Provisions law. But most important in this period, there existed very little vision in the business and the remarkable failure to see the coming automobile hazard, and the need for a war exclusion clause retarded the development of A & S for the next decade.

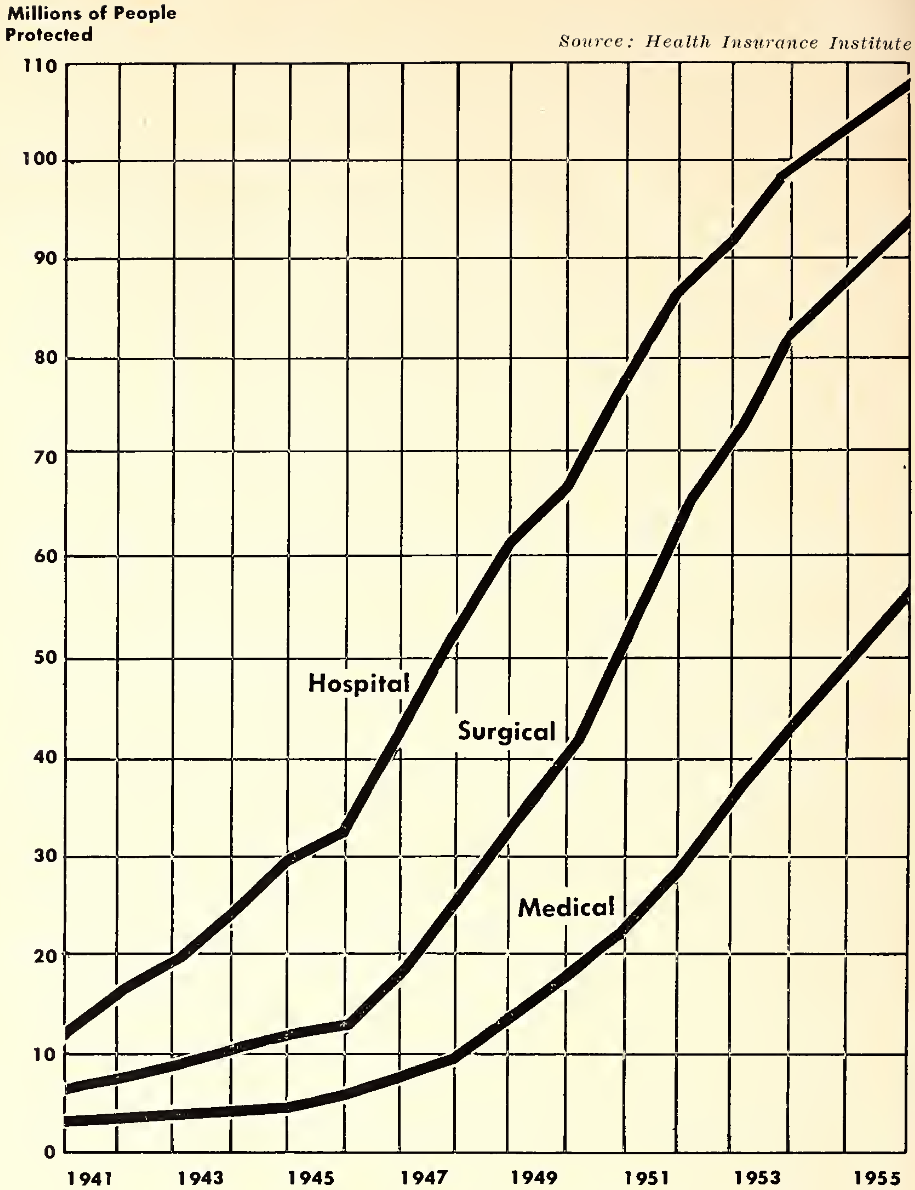
The accident and sickness business languished between 1917 and 1929, and the period is noteworthy only for the presence of a faintly restive turn toward adaptability and a slight attempt to meet the public's needs. Beginning in 1920 life companies entered the field, cautiously but in increasing force, mainly in offering riders on life policies.

Came the depression and sales fell, old policies lapsed and loss ratios climbed. Sicknesses were exaggerated in claims as were the extent and period of disabilities. The use of the noncancelable, guaranteed renewable policy was virtually abolished.

The losses to the business were heavier at this time because of institutional errors of previous years. First, companies had been underwriting physical risks only and ignoring moral hazards. Again, they had written immense amounts of monthly indemnity and were receiving inadequate premiums because of their apparently permanent lack of experience on which to base rate computation. The depression was a period of general withdrawal from sickness coverage and where it was retained, it was discouraged through a widespread policy which included reintroduction of the waiting period and cutting sales commissions.

The depression had, however, a few salutary effects on the business. It forced a long reappraisal of coverages and underwriting practices, a reappraisal which ultimately brought about modifications and improvements. The period saw the development of hospitalization, as the awareness of hospital and medical costs increased in the public mind.

With the expansion of industry and the modifications of the tax structure which occurred during World War II, there arose intense competition for manpower which led to quick rises in the volume of group insurance. The growth of group insurance and the continued climb of medical costs combined to force on the public an awareness of Accident and Sickness insurance. The resultant expansion of the market accentuated the need for more



and better agents and companies began to revise and strengthen their agent training programs. At the end of the decade, coverages were broadening, and new coverages were appearing because competition was becoming keener.

Perhaps figures will best indicate the extent of growth in accident and sickness insurance in the past few years. In 1951, for instance, industry-wide accident and sickness written premiums totaled $1,523,725,337. The 1955 total was $2,877,057,794. And these figures exclude Blue Cross-Blue Shield subscription plan receipts. Sixty-one percent of the population of the United States have some form of hospital coverage today, 51 percent have some form of surgical coverage, 28 percent have regular medical expense insurance.

Today A & S insurance is identified as a factor in the population's economy. Of approximately 40 million American families, 35 million include voluntary health insurance of some sort in the family budget. Of these 35 million, some 51 percent are insured through accident and sickness carriers.

There are, generally speaking, three accident and/or sickness coverage plans in addition to those operated by private insurance companies. *State insurance* is coverage provided by a carrier sanctioned by a governing authority. Workmen's compensation, for which every state in the United States and every province in Canada has made provision and which is compulsory in about half of the states, is such insurance. WC is born of the idea that industrial accidents are a part of the cost of production and that those injured should be compensated. The several WC acts set up scales for each disability, and the amounts of compensation vary widely from state to state. Many provide medical expense coverage and provide for such expenses as those for artificial limbs, but since these plans are matters of legislation,

th[illegible]quently liable to change.

Soc[illegible] insurance is compulsory insurance, whether supplied by a state carrier or a private company, and is likewise a matter of legislation. These plans are designed to continue where WC ceases, and they usually supply hospital benefits and disability income protection up to specified limits. California's Unemployment Compensation Disability law, Rhode Island's Cash Sickness law and New York's Disability Benefits law are examples of such insurance.

Cooperative insurance is provided by organizations incorporated under non-profit laws by employees' associations, consumer groups, hospital and medical associations or civic groups. The Blue Cross-Blue Shield plans are the largest and best known of these. Blue Cross is the name applied to various hospital service plans which are loosely coordinated by the Blue Cross commission. The commission has little authority save to establish standards and provide guidance for the hospital plan which recognizes it. The Blue Cross plans provide hospital service and care as opposed to general insurance company plans which reimburse or pay periodic indemnity to the insured. When a hospital agrees to provide enrollees with certain services, it is reimbursed by Blue Cross. The plans usually provide group coverage, but individual enrollment is sometimes permitted. Blue Cross rates vary as hospital rates and benefits vary likewise, but customarily the plan provides semi-private accommodations, general nursing, drugs and dressings, operational and laboratory expenses, X-rays and the use of special equipment when it is needed.

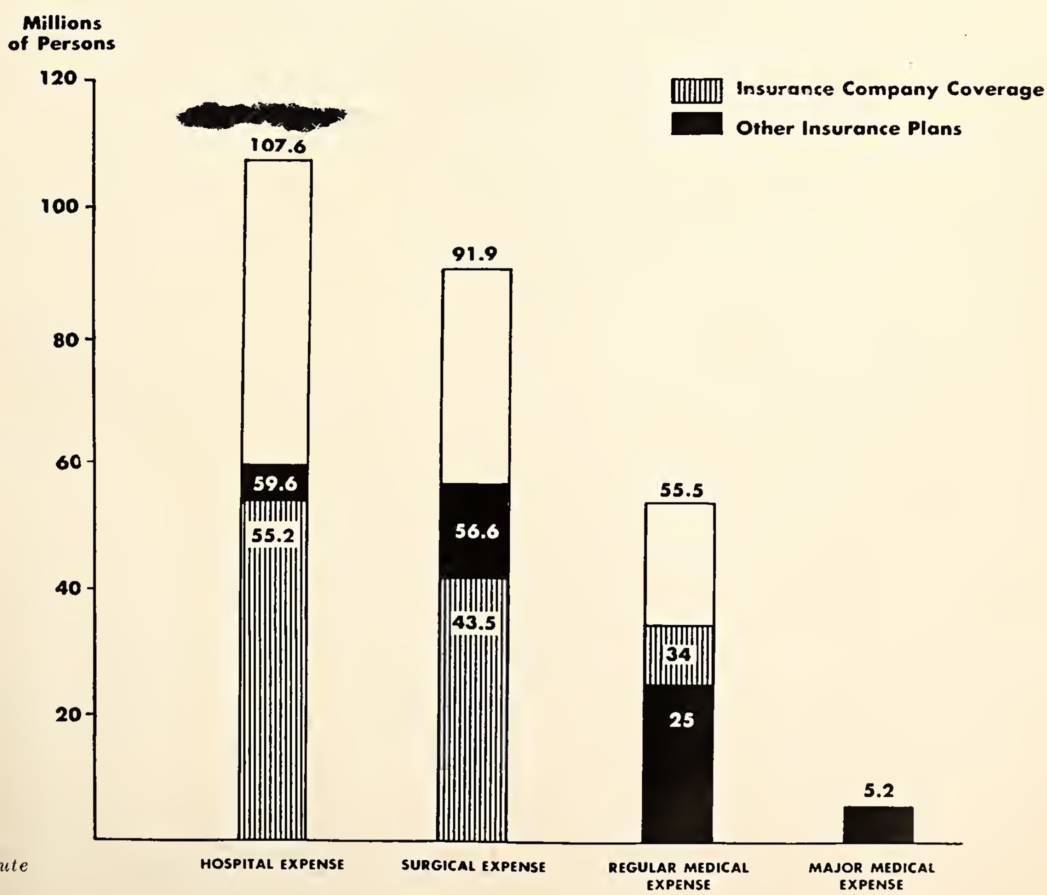
Blue Shield is the name applied to the various Associated Medical Care plans which usually cooperate with Blue Cross and which may be either group practice or medical pre-payment plans. Under the group practice plan the enrollee selects a physician from a list of those participating in the plan, and medical care of certain types is supplied in return for the premium paid. Medical pre-payment plans provide that fees be paid to any physician or surgeon the subscriber selects.

The total combined subscription income for Blue Cross and Blue Shield—preponderantly group business — in 1955 was $1,482,237,363. Total premiums written for insurance company group plans in 1955 was $1,681,173,-721. Group insurance is written on a group of persons, usually all the employees of one employer, all of a class among the employees, members of a trade or employee association, members of a union, debtors of a creditor, or students. The policyholder under a group plan may be an employer, a union-management trustee or an association trustee, while subscribers receive Certificates of Participation.

Group's great development occurred during the last war and at present there are about 250 companies writing group insurance. Group coverage is almost always for non-occupational sickness and accident, it is of great variety and it can be written in almost any combination. *Group hospitalization* covers hospital room and board for a flat amount per day to a maximum number of days or on the basis of actual expense. Dependents may usually be covered under group hospitalization, maternity benefits are available as a rule, and the plan can be supplemented by *group surgical expense.*

There are three types of *group medical expense:* in-hospital expense, the charge for physicians' calls in the hospital; medical expense, a specified amount for each call, in-hospital or out if there is total disability; comprehensive medical expense, fees to a maximum per call and a maximum total or maximum period of time.

Group accident and sickness will provide: accidental death and dismemberment benefit which, unlike most group A & S benefits, can be payable for occupational as well as non-occupational accidents, and disability income, which is paid in weekly or monthly instalments in the event of



At present 61 percent of the American population have some sort of hospitalization coverage, 51 percent surgical coverage, and 28 percent regular medical expense insurance. This total coverage is issued by private insurance companies; cooperative insurance, such as Blue Cross; and government instigated plans.

Source: Health Insurance Institute

the subscriber's total disal

Group catastrophe cove medica and hospital bills inciden accident and sickness as defined in the policy. Attractively low-priced for the consumer, group coverage is an acutely competitive business today, and the companies who write it are continually vying with each other to offer less expensive, more generous plans. A measure of the importance of group insurance is indicated by its presence as a point of negotiation in most labor-management contracts.

As its rapid growth continues to thrust the group business on the public consciousness, ordinary A & S is growing at a corresponding rate. Prominent in this growth are two current innovations which have become so popular of late as to be almost industry-wide.

Because most individual policies provide protection on a year-to-year basis, they must be renewed annually. Renewal is subject not only to the insured's willingness to pay, but to the insurer's willingness to insure as well. The latter, of course, is largely contingent on the insured's being in acceptable physical condition.

An increasingly popular policy is the *non-cancelable* or guaranteed renewable policy, a form of which Depression-time abuses all but destroyed. It is renewable on a long-term basis at the option of the policyholder only, and regardless of his physical condition. This coverage is especially popular with people who are not eligible for group plans. They may be in professions where their A & S insurance must be in individual policies and for such, non-cancelable insurance has the evident advantages of semi-permanence and a wide range of services.

In both group and ordinary accident and sickness there has developed in recent years a policy which provides *major medical expense* coverage. The purpose of major medical is to *assist* the insured in paying those expenses resulting from particularly grave illnesses and accidents, expenses which can be enormous. To do this instead of completely covering the insured, major medical insurance contains a deductible provision much as that in automobile collision insurance. Under this provision the insured covers all of his losses up to a specified amount and the insurer provides reimbursement beyond it. While such a plan promotes family budgeting against minor illness expense, its truly significant feature is that it helps prevent the catastrophic losses which one can suffer as a result of illness or accident.

Now is the new era of accident and sickness insurance. Recognition of the immensity of the loss which the national income suffers because of accidents and sickness has created a public demand greater than ever before. New companies are rapidly entering the field and large life companies which have hitherto not written A & S business are planning and launching giant competitive prog

More of the needs of more of the public are filled as developments such as the non-cancelable and major medical plans are more widely marketed and as group coverage expands. And as the future of accident and sickness insurance enlarges, so do its career opportunities. Company growth is the inevitable result of an increased volume of business, and such growth can be maintained only by meeting market competition. To do so, companies must continue to devise new plans, and A & S specialists are needed to do the planning.

Company training programs produce highly skilled agents who must go into the field and sell the product, but while the field force is operating outside, a large staff is necessary at the home office to perform the multiple functions which constitute the on-going of business.

Actuarial trainees with a background in mathematics learn to compute, establish and adapt rates and policy forms. Financial departments administer company investments, the *sine qua non* of any insurance business. Company legal departments supervise contracts, represent the company in the courts, pursue tax considerations and work on insurance plans so that they conform to the regulations of the several states.

Underwriters and claims specialists are developed who have the judgment, the intelligence and the insight to estimate risks accurately, settle claims amicably, draft intelligible policies, learn basic principles of law and medicine, and above all, understand man.

The growth of a company necessitates the development of an expanded personnel department which must direct employment and placement and maintain employee relations. Although its importance is beginning to be recognized now, the potential of the public relations department has not yet been fully explored. Men with years of experience and accomplishment in these departments are the officers of many insurance companies today.

The college student today is offered a number of attractive career possibilities in a number of attractive fields. Among these is accident and sickness insurance, a business which meets a public need, a competitive, stimulating, rewarding business whose virtually unlimited future depends only on the future of the nation.

The large number of railway accidents in the middle of the nineteenth century were instrumental in the development and growth of accident and sickness insurance in this country.